Readings in Global Organization Design Books

Levels of Excellence

by Julian Fairfield

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LEVELS OF EXCELLENCE

A MANAGEMENT NOVEL

JULIAN FAIRFIELD

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‘While reading *Levels of Excellence* you can’t help but relate to your own experience of what does and doesn’t work. A good read.’ *Leigh Clifford, CEO, Rio Tinto*

‘Written as a novel, this book makes complex ideas very accessible. For me it emphasises the importance of understanding and implementing “what’s right for the organisation, not who is right”.’ *Nick Stump, CEO, MIM*

‘*Levels of Excellence* is a serious attempt to explain how to achieve superior business performance through a blend of formal approaches to managerial authority and less formal processes that encourage freely given co-operation.’ *Sir Roderick Carnegie*

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LEVELS OF EXCELLENCE

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Contents

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All I can say is an inadequate thank you.

Introduction

Up until the early seventies most management literature focused on the formal side of management: strategy structure, objective setting, accountability and directive leadership, with an emphasis on the employment contract, a relationship fundamentally between strangers. Today most management literature focuses on the informal: vision, shared values, team building, and involving leadership, with an emphasis on rich work relationships.

As an avid student of, and participant in, both eras of thought, I was always struck by the need for both

the formal and informal approaches, not one emphasised to the exclusion of the other.

Formal approaches lack the human touch and informal approaches often pretend that the formal aspects of the employment contract and hierarchical accountability don't exist.

Leveraging off an understanding of the development of problem solving capability in adults and how capability legitimises leadership and hierarchy, this book explains how both the formal and informal can work together as a unified whole.

The honest and holistic approach of *Levels of Excellence* enables not only significantly improved levels of performance, but also a work environment that reflects our need for both order and belonging.

The book is written as a novel with the aim of making the underlying concepts an 'easy read'. For those who have a primary interest in the concepts, it may be worthwhile reading the epilogue before the novel to gain an overview of the concepts upon which *Levels of Excellence* is based.

Chapter One

The job offer

As he parked in the underground car park, Jim wondered what the devil he was doing. Here he was, 34 years old and recently divorced, going for an interview with the chief executive of the country's biggest bank. His personal life was a mess and the job he was after was hardly the sort of thing calculated to improve it.

His ex-wife had accused him of being wedded to the bottom line. He spent more time with his laptop, Sally had said, than he did with his family. It was true, though he wished it wasn't. But that was all in the past. He couldn't turn back the clock any more

than she could. And if he got this new position, his workload would be even greater. Not that it would matter. Home, since Sally had left, was not a place where he felt like spending much time.

Even so, catching the lift to the First National Bank's executive level on the 26th floor, Jim was tempted to get out and go back to his job at the Australasian Bank. He'd been with them for five years now, the last three as general manager of the investment division. In those three years, he had lifted profits, restructured his division and increased productivity, cutting back on staff significantly.

If he liked, Jim could now sit back and enjoy the rewards: an impressive, if rather austere, reputation as a can-do man, a good salary and a new car every 18 months. None of it made up for the loss of his marriage, and hardly a day went past when he didn't question whether it had been worth it. But he couldn't pretend to be someone else. He loved his work, and sitting back and taking it easy was not in his make-up. He felt frustrated because he knew there was more he could do, but Australasian's senior management had stopped him from doing it. Jim was the youngest divisional general manager in the bank and it made them nervous to see him retrenching loyal staff whose performance wasn't up to scratch.

Although he had been sorry to let some of the

people go, Jim was looking at the big picture and knew he had to be performance-focused if he was to put his division on the right track. It was clear to everybody that he had succeeded. Nobody could argue with the result.

Now Jim felt the time was right to take on a new challenge. He had been flattered to be targeted by a top headhunting firm for the job at First National. Becoming general manager of the bank's mortgage loan division would be a big step up the corporate ladder. It would mean a big raise in salary, more responsibility, the scent of real corporate power.

That is, if he got the job.

The lift door slid open and Jim walked across the plushly carpeted executive foyer, trying not to betray the doubts which had momentarily crossed his mind as he considered the demands the new position would make on him.

'Good morning,' said the perfectly groomed woman at the reception desk. 'Mr Agnew, is it?'

Before Jim could reply, the woman stood up. 'Mr Mendleson is expecting you and asked me to show you right in,' she said as she tapped on a walnut-panelled door with the words 'Chief Executive Officer' embossed in gold.

'Mr Agnew is here,' she announced. 'Can you see him now?'

From behind a large oak desk by the window, a rich baritone voice boomed, ‘Sure can, Kate.’

The office was at least three times the size of Jim’s, with a floor-to-ceiling window overlooking the harbour. The other walls were adorned with august-looking portraits of what Jim took to be previous managing directors of the bank. The First National was clearly a company that valued its heritage.

Mike Mendleson was in his late fifties but long evenings spent on the squash court had enabled him to hold onto his athlete’s physique. He was tall and lean and had short gunmetal grey hair and a neatly trimmed moustache. Black and navy braces supported his dark grey pinstripe trousers. He pushed back his swivel armchair and walked over to Jim.

His firm handshake suggested that Mike was used to being top dog. Jim was well aware of his background: Mike had joined the bank as a trainee teller while studying for a doctorate in economics at Sydney University, and in 30 years had worked his way right to the top. He was widely admired by the staff for his fairness and the impression he gave of knowing the bank’s operations inside out.

Mike led Jim to a handsome black leather lounge setting. Sitting in one of the two armchairs, he gestured to Jim to take the sofa opposite. ‘Now tell me, Jim,’ he said, ‘have you looked through the file I

had Human Resources send across to you? It outlines the situation in the mortgage division and why we're interested in someone like you.'

'I have it right here,' Jim said, taking a large envelope out of his briefcase and dropping it confidently on the coffee table between them. Twelve months in the mortgage loan division at Australasian had given him a solid grounding in the $200 billion mortgage market.

However, Australasian was a minor player compared with First National. Three years ago, First National had been market leader, with a 20 per cent market share worth around $40 billion. 'Back then,' said Mike, 'our net interest margin was roughly 1.3 per cent, or about $520 million. Our average mortgage was about $110,000 and the average life of a mortgage was five years. So we used to roll over around $600 million to $700 million a month to keep our share at 20 per cent.'

Jim had read the file thoroughly and knew the figures. He wanted Mike to know that he had done his homework. 'You have a sales force of 420 people,' said Jim, tapping the envelope. 'I've looked at their performance. On average, each salesperson sells only 10 to 15 mortgages a month.'

'That's right,' replied Mike, leaning back in his chair. 'But they also sell other products, such as

personal loans, and they handle deposits.'

Jim could see that Mike hadn't brought him here for small talk. He wanted Jim to demonstrate his grasp of the business.

'The file shows that three years ago the mortgage business was a relatively low risk, low cost, high return business,' said Jim. 'By my calculation the profit would have been around $380 million. It was a very profitable business that enabled you to cross-subsidise transaction accounts and the branch network.'

While Mike listened, he tried to discern what kind of man Jim was. He was obviously bright and confident of his analytical skills. He didn't have to be asked twice for an opinion. He seemed personable enough but Mike suspected a shyness behind the bravado. His striped blue and green college tie and charcoal grey suit suggested rather conservative tastes for a man of his age.

His professional reputation, however, was far from conservative. Mike knew that some people at Australasian referred to Jim as the 'Terminator'. This troubled him. Mike shied away from retrenchments unless they were absolutely necessary. He also wondered whether Jim operated as a one-man band, something that would be quite out of step with the team philosophy at First National.

However, there was no denying he got the job done. The headhunters' report emphasised that Jim had exceptional managerial abilities, with a clear capacity to drive an organisation. He had reorganised the management structure in Australasian's investment division, allowing a clearer definition of roles with a strong focus on accountability. This, together with greatly improved operational systems, had boosted productivity within the division and profitability had nearly doubled.

Mike was also aware from the report that Jim had been a first grade footballer and, until three years ago, captained the Eagles rugby union team. It made the news bulletins when Jim twice declined selection to the Australian team and finally retired from the sport to concentrate on his career. He was remembered at the club as a great motivator and team leader. Great motivator on the sports field and 'Terminator' at work: Mike wondered how they could be reconciled.

For once, though, he felt satisfied that the headhunters had done a good job. Meeting Jim confirmed what he already suspected—that Jim Agnew was the man to turn around the mortgage division at First National, although he might need to modify his methods. But for the time being Mike intended to keep his decision to himself. There was more he wanted to find out about Jim.

'You know,' he said, 'I'm very concerned that changes in the structure of the mortgage industry in the past three years have eroded our position. Our high margins have attracted a new form of non-bank competitor. A typical one is Kookaburra Loans. Kookaburra uses the internet and other forms of mass media to advertise their product, something we were late to adopt.

'They have a low cost sales force which is quite different to ours. Theirs is a mean and hungry team who get out on the road and hustle for business. They have picked up six per cent of the total market and have an operating cost structure that is half of ours. They're worrying the hell out of the traditional players, us included.'

Jim nodded solemnly. He knew all about Kookaburra, although he refrained from telling Mike that the company's managing director, in an unexpected and surprisingly informal telephone call a couple of months ago, had offered him a position, which he declined because it would have limited his growth.

'Reluctantly,' Mike continued, 'First National has been forced to follow Kookaburra's pricing strategy. We have brought our prices down, dropping our margins from 1.3 per cent to 0.8 per cent. But it hasn't stopped them. The aggressiveness of Kookaburra and the other new competitors has slashed our market share from

20 per cent to about 14 per cent. So the book is down from $40 billion to $28 billion. The division's annual gross revenue is down to $220 million. Profit is less than $80 million a year.' He looked Jim in the eye. 'Frankly, we're up a creek and paddling backwards.'

Jim put both hands together and frowned, as though he shared Mike's unease. He knew that all the banks were worried by the trend but that First National, as the worst managed, had been by far the most severely affected. The figures Mike had just disclosed told Jim that First National had not cut costs at all in spite of its share loss.

'Kookaburra's success is especially galling,' Mike went on, 'because it has no bank customer base to draw from. They get every single customer as a new customer, while we have over three million customers—half of whom consider us to be their prime financial provider. I won't mince words, Jim. The person I am looking for will need to turn this division around. I've been told you fit the bill. What do you think is achievable? What would you do if I gave you the job?'

Jim didn't respond immediately. Until now, he had been wondering how First National could so easily have surrendered its hold on the market. The obvious answer was that the bank, or at least its mortgage division, was ineptly managed. This was probably

not a reply that Mike wanted to hear. But the truth was that Kookaburra had outflanked them and they hadn't known how to respond. Now Mike was turning to him, and waiting for his answer.

Thinking on his feet, Jim replied: 'With the little knowledge I have of your operation, I think I'd focus on three areas. First, we have to realise that we will never go back to margins of 1.3 per cent. They have gone forever. But I believe we could at least hold the average at 0.8 per cent if we segmented the market-place with price fighters at the bottom end of the market and tailored loans in the middle, plus some relationship loans at the top end. This would probably lift our average margins and stop our loss of market share. It might even help us pick up a few points.'

It didn't escape Mike's notice that Jim was already using the word 'we'. He spoke as if he had already been invited on board—and accepted.

'The second thing we would have to do,' said Jim, 'is work on the performance of the sales force. The Kookaburra sales force sells 30 to 40 mortgages a month. I know it sounds harsh, but I'd bet that half of our sales force will have to go because they won't be able to compete with the likes of Kookaburra. The ones that stay should be rewarded primarily on performance and not just rely on their base salaries.'

Mike's face hardened. Deep down he knew this was inevitable, but nobody in the bank had been game enough to mention it. The truth was, First National liked to think of itself not simply as a business but as an institution—almost a family. The bank hated letting people go. It expected loyalty and returned it. Now an outsider was calmly laying out a strategy for survival that Mendleson's senior management team had been determined to shirk.

'The third part of our attack,' Jim went on, 'would be to go into the customer database and mine the hell out of it. We have to reduce run-off and increase leads and referrals. If we do it smartly, with our base of three million customers, we will kill our non-bank competitors and even the other banks.'

Mike stood up and walked to the window. What Jim had said made sense to him and he couldn't help wondering why the bank's own planning and strategy group had been unable to see it. Maybe, he thought, it was a result of the bank's team culture. Teams don't always find it easy to make hard decisions.

'You know, Jim,' he said, 'I believe we are thinking along the same lines. I have three goals for the person who takes the general manager's job. To start, I want to lift the bank's share back to 18 per cent, which means a book of at least $36 billion, even without market growth.

'Then, I want to lift the margin from its present 0.8 per cent closer to one per cent. This would push revenue up to the $300 million to $360 million mark. Third, given some systems work and cost reductions, profit should improve to above $200 million.'

Jim nodded. 'In other words, your plan is to more than double profits from $80 million to over $200 million.'

'Yes,' said Mike. 'That's the job. If we can agree on the details, then it's yours.' He looked out of the window before turning to Jim. 'Can you pull it off?'

Jim felt his heart race. He was certain that with the right team and authority to make changes, he stood a good chance of achieving the turnaround Mike wanted. 'I believe it can be done,' he replied. 'But I need to be sure that the necessary resources would be available for me to succeed. I also need to know your timeframe.'

Mike returned to his seat. 'We will give you three years to double our profits. I want profit to grow at a minimum of 30 per cent each year for the next three years. Overall, I want 18 per cent market share in the third year. Initially, you would have six months to reverse the negative share trends.'

Taking notes on a notepad he had pulled from his briefcase, Jim looked across at Mike. 'Okay. What authority would I have over the people who work for

me? Are they accountable to me? Can I bring in who I want and let go those I don't want?'

Mike contemplated the ramifications of the question. He would effectively be giving Jim a free hand to run his own operation according to rules that did not apply to the rest of the bank. Noses would certainly be put out of joint. 'Yes', he said finally. 'You would be able to hire anybody you want, given that they meet normal bank requirements. If you need to let people go, then the bank won't stand in your way. But we'd like to try to place them somewhere else in the bank first. So far as your authority goes, you can reorganise the division the way you see fit, although I have a couple of constraints that you will have to live with.

'First, mortgage processing and credit will be outside your division. Second, corporate marketing can veto your marketing if it falls outside the bank's overall brand strategy. And third, I don't want a piecemeal approach taken to a reorganisation within the division. Before you can make any reorganisation, I will need to have a Seven-S analysis carried out.'

Jim looked momentarily perplexed. 'What is a Seven-S analysis?' he asked.

The sight of Jim on the back foot brought a smile to Mike's face. 'It's a descriptive model of organisa-

tion, developed by Tom Peters and Bob Waterman when they worked for McKinsey in San Francisco. The idea is basically that any organisation can be described using the Seven S's—Superordinate Goal, Strategy, Structure, System, Skills, Staff and Style.

'Together, they form an integrated whole. Change one "S" and you are forced to change them all. In a Seven-S analysis, you answer the questions "From what?—To what?—To achieve what?" for each "S". It's a damned good model to use when thinking through organisational change.'

Mike thought of explaining the model himself but almost immediately decided against it. He would give that job to someone else. It would be a useful way of introducing Jim to the team philosophy at First National. Turning to Jim, he said: 'I suggest you talk to Jane Henderson, our head of credit cards, personal loans and financial planning. Jane is in the process of doing a Seven-S organisational analysis of her division, similar to the one I want you to undertake. I'm sure that if you get your heads together, you will understand it better than if I lecture you on it.'

Jane Henderson? The name was familiar. It took a few moments before Jim remembered the occasion. It was about three years ago. Jane had been brought in by Australasian as a consultant to lead a huge—and highly successful—IT project. At the time she was

a systems specialist working for one of the big US-based multinational consultancy firms. Jim had run into her when she was cross-checking some data during one of the IT reprogramming processes. She was tall and enigmatic, with a mischievous sense of humour. On her last day she had given him a pair of Bart Simpson socks and told him his wardrobe was too dowdy.

She was also very sharp. He had been impressed by the speed with which she mastered the details of the investment division's operation. Later, over a lunch with the systems manager, David Willis, Jim learnt of the superb job that Jane had done. 'She has a strong reputation as a team builder,' David had said. 'She had a pretty big job in Washington before coming back to Australia this year. She did everything ahead of schedule and under budget. She had the entire IT department eating out of her hand—and you know how difficult some of those people can be.'

'I remember Jane,' said Jim. 'I met her briefly before she joined First National, but I doubt she'll remember me.'

Mike smiled. 'Well, she certainly does remember you,' he said without elaborating.

This surprised and rather pleased Jim. Somewhere in his sock drawer he still had those Bart Simpson socks, unworn. Meeting Jane again was something he

hadn't expected, but he was already looking forward to it. He was intrigued, though, to know the context in which his name had come up in a conversation between Mike and Jane.

But before Jim could ask, Mike said: 'I think we are close to a deal.'

Jim hesitated. He knew he would enjoy the challenge but wanted to make sure he would be properly paid for the demands it would make on him. 'Well,' he smiled, 'I'd like to take the job, but we still haven't settled on a package.'

Mike slapped him playfully on the shoulder. 'I think you'll find the offer satisfactory. The job rates a salary grade of $600,000 a year with a review every six months. Plus the normal benefits, of course.'

Jim masked his elation and carefully pondered the offer. A salary of $600,000 a year was $150,000 more than he made last year at Australasian. 'That sounds fine,' he said. 'But don't you think there should also be a performance-based incentive if I'm going to turn around the business and double profit?'

Mike frowned. 'I'm ambivalent about individual divisional incentives,' he said. 'What I'm offering is a chance to become part of the First National team. If you succeed, you'll be in line to be one of the most senior executives in the bank. You should look long-term at what is on offer. Also, I think that success in

this project will flow from a team effort and not just from the efforts of one individual or division. To achieve it, you will need support from the rest of the bank. Credit control, processing, the branch network and referrals will have a significant impact on your performance.'

Jim was not prepared to back off. 'What you say is true,' he told Mike, 'but that's their job. If they don't support me, they shouldn't be there. I can do the job. I can double your profit. When I double your profit, I want a 50 per cent bonus. Is that a deal?'

Mike knew that by agreeing to Jim's terms, he would be committing the bank to a payment of $900,000 in the third year. He would be setting off a mass of internal problems. At the same time, he had considered everyone else on the shortlist and he knew that Jim was by far the best person for the job.

Mike thought about it for a few seconds and then grudgingly gave his consent. 'Okay, you drive a hard bargain,' he said. 'We will meet your call, but on two conditions: one, your base will have to drop to $500,000 or you will be on a winner to nothing; and two, we delay 50 per cent of the bonus for two years. If we are going to be up for that kind of money, I want to be sure we have your services for at least five years. But by hell, with the money we'll be paying, you had better come up with the goods.'

They called it a deal and shook hands. 'I'll get HR to draw up a contract,' said Mike, ushering Jim towards the door. 'Now that you're on the team, I'd like to show you around the executive floor.'

During a 10-minute tour of the floor, Jim was introduced to four of the divisional general managers and two secretarial staff. All seemed keen to welcome him aboard. He was then shown into a large walnut-panelled office looking out over the city. 'This one's yours,' said Mike.

'No thanks,' said Jim, scarcely bothering to admire the view. 'If I'm going to do my job properly, I'll need to be at the coalface. I'm a hands-on manager and I want to be with the people working for me. That way, there can be no slip-ups and no surprises and I'll always be accessible.'

Mike found Jim's approach a bit puritanical but he agreed to make room for him in the mortgage division.

Finally Jim descended alone to the car park. As he walked to his car, he felt exhilarated. He had talked himself into a job that could pay $750,000—an undreamt of salary until now—and had almost limitless prospects for promotion. The years of commitment and the sacrifice of his international rugby career had paid off. If it hadn't been for the sight of the car park attendant eyeing him suspiciously over

his newspaper, Jim would have let out a whoop of excitement.

He couldn't fool himself about the size of the task ahead, or the risks attached to failing. He had been given command of a sinking ship but he needed to do more than stop it sinking. He had to sail it into clear water—and leave the likes of Kookaburra floundering in his wake.

He was confident that the type of changes he had put into place at Australasian would bring big improvements here. But could he double the division's profit in only three years? It would be the biggest challenge of his career. And what of Jane Henderson? Why did she remember him, and why was he looking forward to meeting her again? Jim acknowledged a wry salute from the car park attendant and drove out into the sun.

Chapter Two

The Seven-S model and Jane's approach to team building

Jane Henderson was ready for bed and poured herself a nightcap of scotch and soda. As she screwed the top on the bottle, her eye fell on a small silver-framed photo sitting among the bottles of aperitifs she liked to bring home from her holidays. The picture, taken in front of the White House, showed her arm in arm with a good-looking man in a dark raincoat.

She hadn't heard from Steven since they split up four years ago. He was a gentle man but painfully serious and still mollycoddled by his elderly mother. He was incapable of making a decision without

consulting her first. Jane had felt as though the old woman was living with them. The on-again, off-again relationship had lasted five years but in the end Jane couldn't bear it and left. They hadn't spoken since.

She was about to turn down the bedcover when the phone rang. She expected it to be Mike Mendleson. Mike often called his senior executives at home late in the evening to discuss work. Jane was pleased to be included. She relished her job as the general manager of credit cards, personal loans and financial planning, and would have hated not to feel part of the big decisions.

She didn't draw a line between work and her private life. Since returning from Washington four years ago, she had been happy to let them both blend together. There was enough mobility in her job to sidestep any romantic obstacles.

'Jane,' said Mike, 'I wanted to let you know that I interviewed Jim Agnew today and I've offered him the position of general manager of the mortgage division. He starts with us on the fifteenth. I think he will bring a great deal to First National. I remember you saying at lunch last week that you had met him during your stint at Australasian and that the two of you got on well. That helped convince me that Jim is the person we need for the mortgage division—although I won't hold you responsible if

he doesn't work out.' Mike chuckled, as though he could picture the look on Jane's face. 'He has a strong hands-on approach and has plans to reorganise the division. I've told him to contact you when he starts. He's not familiar with Seven-S analysis and since you're the expert I'd appreciate you taking him through it.'

As a boss, Mike was great for morale. He treated his general managers as though they all had something essential to contribute, although Jane knew as well as anyone that Mike was his own man and that any decisions were ultimately his.

'I'd be delighted to help,' she said, forgetting her bedtime plans and pouring herself another drink. 'I'll set aside the morning of the sixteenth. That'll give him a day to get settled.'

Jane didn't exactly know why, but she was looking forward to seeing Jim again. Although they had worked together only briefly, and never met outside the office, they had a mutual respect for each other's talents. He wasn't a bad-looking bloke either, she thought, although his fashion sense was pretty naff.

'Great,' said Mike. 'I'll leave it up to you.'

After hanging up, Jane pondered for a while before going to her desk. From the top drawer she fished out a file marked 'Seven-S model'. It wasn't her first choice of bedtime reading but she thought it wouldn't

be a bad idea to brush up on the subject. She wouldn't want Jim catching her out.

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Jim's first day at the bank was routine. He met each of his direct subordinates and a range of other staff in the mortgage division, attended a briefing with the general managers of various other divisions and discussed his office needs with a former colleague, Dave Jones, who was now director of human resources for the division.

He had already met his PA, Claire O'Byrne, on the day he was interviewed. She had been temping for the general manager of the property division, whose office was on the executive floor. Although in her early thirties, she looked older—perhaps because her auburn hair was done up in an old-fashioned bun. She dressed even more conservatively than Jim did himself.

Claire, though friendly, was rather formal. Jim preferred it that way. He was uncomfortable with secretaries who were over-familiar. He happily consented to Dave Jones' suggestion and said he would be glad to have Claire as his PA.

He was also glad to have Dave on his team. Dave was in his mid-thirties and had played rugby with the Eagles when Jim was captain until a serious injury

forced him to give it up. At the time Dave had also been working at Australasian. He had left a couple of years later to join First National. Dave was a likeable bloke, if a bit rowdy out of hours. But he was smart and Jim knew he could rely on him.

Although he had taken the unusual step of moving out of the executive floor, Jim didn't see anyone object. On the contrary, Eric Enderby, a divisional State manager, jokingly said that it was good to see one of the walnuts down at the business end.

It was well into the evening and Jim was at his desk jotting down some notes when he heard a woman's voice outside his door: 'It's okay, Claire, I won't take too much of his time.' With that, Jane Henderson entered the office.

Jane was exactly as he remembered her except that she had done something to her hair. He didn't know exactly what and wasn't game to ask. But he liked it.

'Hi Jim,' she said, offering her hand. 'Welcome aboard. I'm Jane Henderson. We met about four years back at Australasian.'

'Of course, Jane,' he said. 'I remember it well.' He thought of mentioning the socks but suspected that she would know he hadn't worn them. He didn't want to embarrass himself on their first meeting.

Jane smiled, enjoying his surprise. 'Mike mentioned that I should explain the Seven-S model to

you,' she said, sitting down. 'If you have time, I've set aside a couple of hours tomorrow morning. You'll have to come up to my office, though, because I'll need to show you a few slides and charts.'

Jim had already sensed some tension among other general managers because he was probably the only senior executive on an individual incentive package, but if Jane shared their resentment she didn't show it. She struck him as genuinely warm and friendly. Jim knew she had a more senior position and ran a more complex division, managing and integrating three major activities: credit cards, personal loans and financial planning. But she was making no effort to pull rank. Secretly, Jim doubted that Jane could show him anything that would greatly change the way he approached his job. However, he was happy enough to let her try.

'Sure,' he replied. 'Mike said he didn't want me to reorganise the division until I had done a Seven-S analysis. As I understand it, it's an analysis that helps you think through organisational change a bit more systematically. The terms Mike used were "from what to what—to achieve what". The "achieve what" is easy—I'm here to double profit—so I'm hoping you'll help me with the "from what—to what".'

Jane was a little taken aback by Jim's offhand manner, though she knew enough about his career to

suspect that he wouldn't be overjoyed at the prospect of having his hands tied, if that was how he imagined the Seven-S approach. 'It's not what you think, Jim,' she said. 'Seven-S is a descriptive, not prescriptive, model. Mike introduced me to it and I believe it's a very good management tool. But I'll explain it when I see you tomorrow. Is 9.30 okay?'

Jim said he'd look forward to it.

~

When he entered Jane's office, Jim saw that she had taken pains to prepare a serious briefing for him. A PowerPoint exhibit headed 'The Seven-S model' was visible on Jane's computer screen, and she'd even marked a folder with his name and the date. There was a slight coolness in Jane's manner, which made Jim regret his flippancy the previous evening. In fact, he had stopped off after work and picked up a book about Seven-S. He'd barely had time to do more than flick through the first chapter but already he was beginning to wonder how he could put it to use.

Jane, meanwhile, had other reasons for being wary of Jim's agenda. She knew all about his record at Australasian. She felt that he was very ambitious and would look at her more as a rival than as a colleague. Jane believed in teamwork as an essential component

of any successful business and could not understand those, like Jim, who seemed not to value it.

Her instincts were not far off. Jim was a strong advocate of individual accountability. In his view, teamwork was helpful but far from essential. However, he was curious to see what the Seven-S model was all about and had seen enough of Jane to know that working with her would be more rewarding than working against her.

Jim sat down and Jane poured them each a cup of coffee before opening the folder she'd prepared for Jim. 'Let me explain the Seven-S model to you "S" by "S",' she said. 'The quickest way to get started is for you to read through this exhibit I prepared for you.'

She handed Jim a copy of the PowerPoint exhibit he'd seen on her laptop (shown on next page).

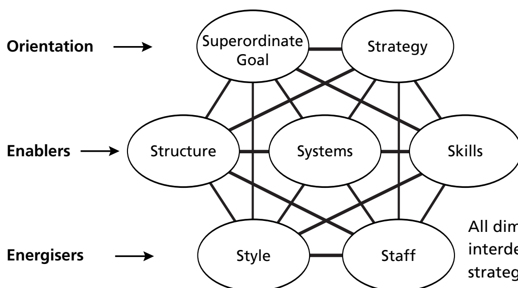
'The model,' she said, 'expresses three ideas. The first is that any organisation, be it First National or the mortgage division or the girl guides, can be described using these seven elements.

'The second is that the seven S's can be grouped into orienters, enablers and energisers. Superordinate Goal and Strategy are orienters: they define the objectives. Structure, Skill and System are enablers: they are the channels through which the objectives are achieved. Style and Staff are energisers: they are the

The Seven-S model

The Seven-S model was developed by McKinsey's Bob Waterman and Tom Peters (co-authors of *In Search of Excellence*), as a way of describing organisations. It is descriptive rather than prescriptive.

Seven-S model



All dimensions are interdependent, e.g. change strategy, and one must almost certainly change structure, skills, staff and style.

Superordinate Goal:	The long-term human and economic leadership vision of the organisation.
Strategy:	The market segmentation, value proposition, and goals of the organisation and how these goals can be prioritised and broken down into separate accountabilities. A new strategy usually requires a levels shift.
Structure:	The organisational chart that shows the division and the co-ordination of work in terms of function and level, and in doing so defines accountability, authority and potential teams.
Systems/Processes:	The formal and informal performance systems and operational processes of the organisation.
Skills:	Organisational skills to support level of capability, skill and intellectual capacity being quite different issues.
Staff:	Support specialists, such as IT, HR and technical, who support accountable line managers.
Style:	'The way we do things around here.' Who has authority? Who is accountable? How are rewards and sanctions manifested? Are we individually or team oriented or both?

motors that propel the organisation. Style is the source of motivation and Staff is the source of energy to drive improvement.

'The third idea expressed by the diagram is that all the elements are interconnected: if you change one—for instance, Strategy—you will have to reflect the change in each of the others. Let me give you an example. In my division, from a strategic perspective, we're splitting our business according to customer segmentation. We are creating two different credit cards, gold and silver. Gold has a high price, high service, high cost strategy while silver has a mass market, low price, standard service, low cost strategy.

'The strategic segmentation has forced us to change our Structure to provide separate responsibility for gold and silver customers. It is also forcing us to go through major System changes because of the different value packages for each card. Even our Superordinate Goal has changed to reflect the switch from an undifferentiated, single service to a separate service level for each different type of customer.

'We've also had to change the Skill requirements in customer service and account management, because we manage gold accounts quite differently to the way we work with silver accounts. That has meant revising the way we train Staff, and developing a more team-oriented Style than we had before.

We have multiple businesses within one division and don't want them competing with each other. I want them to work together.'

Jim paid careful attention to everything she had said. He even took a few notes while she illustrated points with more detailed exhibits that showed how the Seven S's applied to her division. But he still had to be convinced that the Seven-S model was as powerful a tool as Jane believed.

'As you can see,' said Jane, gathering the exhibits and adding them to Jim's folder, 'the model is very useful in terms of thinking through organisational change. You can describe your current organisation—the "from what"—and then your future organisation—the "to what"—in a comprehensive and integrated way.'

'All this is helpful in theory,' Jim said cautiously.

'I thought you'd say that,' said Jane. 'Remember, it's a descriptive, not a prescriptive, model. It helps you to describe key issues. It doesn't tell you what to do. In my view, though, it's not particularly strong on teamwork. In Structure, it focuses attention on the organisational chart, the system of formal authority and accountability. It makes you think that through, but it doesn't express the teamwork within the structure across departments and functions—the way you get freely given co-operation.'

'Okay,' said Jim, impressed by Jane's honest answer, 'what do you consider its greatest benefit?'

Jane noticed the more accepting tone in his voice. 'What I find most useful about Seven-S,' she said, 'is that it's a great communication tool. What we have done within the reorganisation team is to describe our division using the Seven S's—both in terms of how we function now and how we aspire to function. This has highlighted tensions between the present and future. We have then had workshops on the tensions for each "S" and how to resolve them. In short, we used Seven-S to create a framework for progress—the "from what—to what—to achieve what"—which in turn suggested the form of management programme that we need to implement.'

Jim was starting to come round to the idea of using Seven-S, but fired another question at Jane anyway. 'What were the key issues it threw up when you applied it to your division?'

'Our Strategy is set,' she said, 'so I'm not really concerned with that, or Superordinate Goal or even Structure. What I'm more concerned about is teamwork, or rather the lack of it, within Structure. We have a fair amount of Systems work to do, but the two biggest issues we are facing are getting a team Style into the organisation and developing the Skills to execute it.'

Jim remained skeptical of the value of an obsessive focus on teamwork. He had heard from numerous people that Jane Henderson lived and breathed teamwork and was keen to understand why. ‘So how have you set about team-building?’ he asked.

Jane picked up her coffee but realised it was already cold. ‘Everyone in the division, managers included, is undertaking a two-day course. It’s a big exercise, involving over 2,000 people, but it is proving very worthwhile.’

‘Tell me about it,’ said Jim. There was still an air of doubt in his voice, but less pronounced, as if out of habit rather than conviction.

‘Well,’ said Jane, ‘we start with a manager, a facilitator and a team of six to 10 team members. The facilitator is a manager who has gone through a “train the trainer” course. That way, managers become teachers and they have to immerse themselves in the course and understand it in depth.

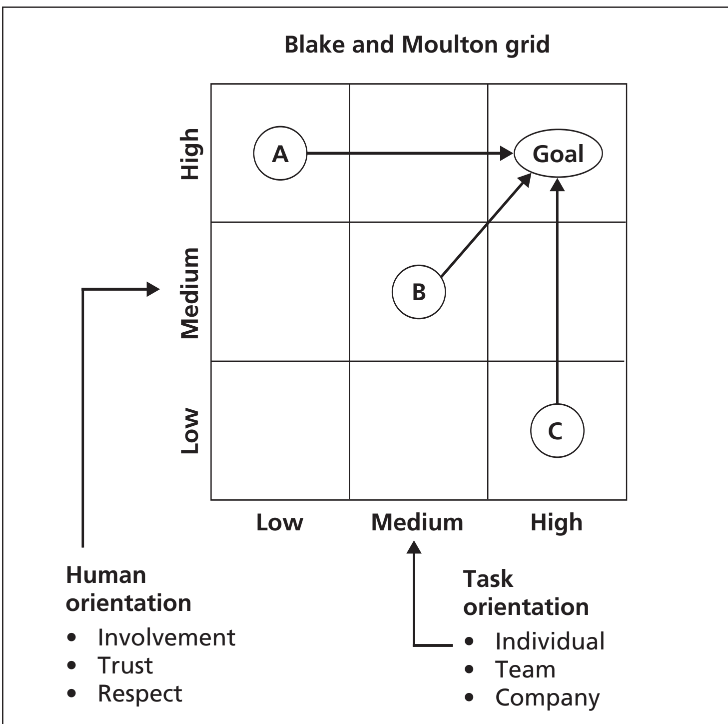
‘The first activity is designed to help the team think through their current style or culture. We use a modified version of the old Blake & Moulton grid approach.’ She glanced over at Jim to see if he was keeping up.

‘Remind me,’ he said with a grin.

‘Well, the vertical axis represents the degree of informal or human orientation for any given activity

—in other words, the propensity for teamwork. The horizontal axis represents the degree of task orientation. Each axis is divided up into three, so we have a nine-cell matrix.'

She drew the grid on her whiteboard and marked the positions 'A', 'B', 'C' and 'GOAL' (shown below).



'Most teams,' she went on, 'find themselves in either "A", "B", or "C"; this then gives them their context in designing the rest of the team-building

process. For instance, an "A" team would have to work more heavily on task orientation and a "C" team more heavily on human orientation if they were to get into the box marked "GOAL".

'The second activity in our course is a team problem-solving exercise. We videotape the activity and score the quality of the teams' interaction against specified leadership and membership criteria. That takes about half a day. Each participant then does several personality tests.

'After that we share the personality test results among team members. It can be a bit difficult, but participants have a chance to see themselves and the team in a new light and to see how others see them. They discuss things they would never normally talk about. That alone creates a great deal of team bonding, because personal strengths and frailties both come to the fore. As differences are recognised and accepted, trust develops and the team starts to communicate more honestly.'

Jim grimaced. He knew that some managers would hate it and feel personality analysis to be intrusive and unnecessary. Reading his mind, Jane said that she had made attendance to this course divisional policy and that was the way it was going to stay.

She continued: 'The second day is more instructional. We explain our required leadership behaviours

and required membership behaviours. We make a special effort to create a concept of membership because effective leadership cannot exist without membership.

‘From there we move to defining leadership and membership activities; how a leader behaves through each activity and how members reciprocate in their behaviours for each activity. For instance, it is a leader’s responsibility to establish the context of the problem that the team is tackling. But it is a member’s responsibility to understand that context and to develop it more fully. It’s the leader’s responsibility to get membership input into finding the solution. But it is a member’s responsibility to actively engage in the process.

‘Having established and agreed upon these behaviours, we then go into a series of workshop sessions, swapping people among the different leadership, membership and observer roles. Through this role-playing, the participants can observe how well they conform to the required behaviours. They also have a chance to reflect individually and as a team on how their personality profiles affect the way they behave with other people.

‘There is lots of laughter and self-revelation, and by the end of the second day they have seen how well, or how badly, they interact as a team. They have

gained some insight into themselves and into others in their team, and shared those insights. But more importantly, they come away with a formalised set of behaviours for both team leaders and members. And they have had three or four opportunities to role-play in which they act out a problem and then review their performance. After each cycle, they are asked to make a commitment to change, then they do it again. So far, our experience is that people come away from these sessions very energised, ready to go. And the teams have bonded very strongly.'

'So who is the leader?' asked Jim. 'Is it always the manager?'

'Often it is, but where special expertise is required, another member will take on the job of leader. The point is not to entrench existing roles but to give all participants some insight into the behaviours required by different roles.'

Jim, who had taken part in a couple of similar programmes in his early years at Australasian, picked up his pen and began rolling it between his fingers. 'Look, Jane,' he said, 'I hate to appear cynical, but it's my experience that while people come away from these things energised and feeling good about themselves and the team, it has little impact in the workplace. In fact it can be destructive because usually the organisational context is different from the role playing.

Tasks are real and managers are being held accountable; it's not a game. Furthermore, weak managers hide their poor performance behind the team. It can screw up the authority structure and weaken task orientation. I hold my managers, not their teams, accountable for the delivery of goals. I can't fire a team if it doesn't perform.'

'Well, we know where you sit on the Blake Moulton grid!' said Jane. 'But seriously, Jim, you're looking at it back to front. You start and end with the task. I hold my managers and team members accountable for behaviours that will deliver goals and firing isn't part of my vocabulary. It's an absolute last resort.'

'Point taken,' said Jim. 'But surely your teamwork philosophy ignores the one essential fact about employment; the thing that distinguishes it from virtually every other activity we may take part in.'

Jane looked at him doubtfully. 'And that is?'

'That we are hired and paid as individuals, not teams. That means we must be accountable as individuals. We work in a formal system, defined by the employment contract. Your idea of communal accountability may sound attractive but it simply isn't realistic.'

'On the contrary, Jim. It's entirely realistic. It just doesn't correspond to your pragmatic definition of

employment. The way I see it, we are people before we're employees and people work best in co-operation. That requires an environment that nurtures involvement, trust, respect and equality. It's an informal system but that doesn't mean it's casual.'

'For heaven's sake, Jane, what you're talking about isn't a business, it's a co-operative.'

'So you're saying communal responsibility doesn't exist?'

'Communal responsibility? Sure. If something doesn't work out the team feels bad. If that's what you consider responsibility then they're responsible. But they're not accountable—they won't be fired or demoted or passed over. It's the manager who's accountable, and if he's going to be accountable . . .'

'Or she.'

'If he or she is going to be accountable, they must have the authority to manage, which means there has to be a hierarchy.'

'Anyone can give orders, Jim, and anyone can follow them. It's called working to rule, and it's usually what happens before the whole workforce goes out on strike. What I'm trying to build is a culture that focuses on behaviours that produce results, not who is giving the orders. That way we have people working together, co-operating, generating ideas, not slavishly obeying instructions.'

'I appreciate that,' said Jim. 'And I've seen the benefits of a co-operative workforce. But it seems to me that everyone hungers for involvement and trust and respect without being prepared to accept accountability when things go wrong. We want to be loved but we hate to be managed. But what happens when your team has a poor manager or doesn't deliver, when the market turns against you or your competitor takes market share and you've got to make tough decisions?'

'You mean by sacking people?'

'Exactly. Sometimes you've got no choice. You know that as well as I do, Jane. Continuity of employment is a fallacy in a commercial world. The truth is, we have to be more productive to stay competitive and often that involves shedding staff. But what's the effect on the team? I'll tell you what it is. They feel let down, betrayed, lied to. They thought they were part of a big team, a family almost, and now they're out in the cold. Even the ones who are left are disenchanted. A team culture that goes sour is the worst thing you can have.'

'So you'd rather not have it at all?' Jane asked, eyebrows raised in disbelief.

'I'm not saying that.'

'That's what it sounds like.'

'No, Jane. What I'm saying is that business is about

making money, achieving targets, not team-building. Teams are great when things are going well but they fall apart when they are not. That's why you have managers. And the only way for managers to manage effectively is through a properly structured hierarchy. The more complex the problem, the greater the ability needed to solve it, and the more capability demanded. You can't manage unless you're given the authority to manage, and the reason you're given that authority is (a) because the staff under you need direction, (b) because you're competent enough to do it and (c) because you're prepared to be accountable for the results. You're obviously fantastic at building teams, Jane, but that's not why you were hired. You were hired because you were more skilled, more capable than the people under you, and the job needed someone with that capability. You were hired to manage.'

'And the way I choose to manage, after seeing how other people do it, and seeing their mistakes, is through teamwork and shared values. It's not a whim, you know, Jim. I don't do it for fun, or because the rest of the staff get a kick out of it. I do it because I believe it works.'

'You know, Jane, I think that at heart you just don't want to admit that some people are simply more capable than others, and that a formal management

system is just a way of structuring different degrees of competence. Not everyone can run a company or even a department, and putting people in teams won't change that.'

Realising the tenseness of the situation, Jane forced a smile. 'It's pretty remarkable, isn't it, that Mike hired both of us, knowing our different styles? It will be interesting to see how things work out. Who knows, perhaps we can help each other, because the truth is, we're probably both right in our own way. There is a need for both individual accountability *and* a strong sense of the team.'

Jim didn't argue, although he resented the inference that he was not a team player. In his own mind, he was just task focused. But he, too, hoped they could work out a way of collaborating. Whatever their differences of management style, Jim was enjoying Jane's company, and judging by her suggestion, he thought Jane might feel the same way. 'Maybe we could meet from time to time to compare notes,' he said.

'You can do the talking next time,' laughed Jane, pushing away her undrunk cup of coffee.

'Speaking of Mike,' said Jim, 'what has he set you in terms of divisional objectives?'

Jane answered that she had to build market share for her three product lines from roughly 20 per cent to 25 per cent. But the gains had to come from the

growth of high income, high net worth gold customers. That was the motivation that had prompted her to split the business between gold and silver cardholders. If she met her business plan, Jane said, then her division would improve profit by a third, from $300 million to $400 million. Mike had given her five years to succeed.

'That sounds like an eternity,' said Jim. 'Surely it won't take that long.'

'It is a long time, and maybe we'll reach our target before then, but if you break the work down and identify exactly what programmes have to be delivered to make the restructure work, I think you're talking at least five years. We're not aiming for the kind of turnaround you need in the mortgage division because we don't have the sort of historic problems that you have. We're looking at building on a business that is currently doing well. But we want to make it much better—to take it up a level and ensure its growth by staying ahead of customer needs.'

Suspecting that Jane already had a fair idea of his remuneration package, Jim asked: 'Are you and your team on personal performance incentives? Mike gave me a bit of a hard time when I insisted on one.'

Jane smiled, knowing exactly what Mike thought about personal incentives. 'No,' she said. 'I'm on a straight salary plus the general executive bonus. We

haven't got a division-based incentive, let alone personal incentives.'

'That's crazy,' said Jim. 'You're going to bust your butt 14 hours a day, six days a week, to improve profit by $100 million and you're not going to get personally rewarded for it.'

'Well, that's how I work,' she replied. 'If we operated a high-powered personal incentive system, we would erode the teamwork that we are trying to build. Anyway, it simply wouldn't be economic to give big incentives to everybody in the organisation.

'We believe the only way to ensure the division meets its goals is through teamwork. Co-operation is the key to our success. If cards, personal loans and financial planning don't work together, we are not going to get anywhere with top-end clients. If we create highly leveraged individual incentive packages, the team ethic will break down.'

Jim shrugged. As far as he was concerned she was not being properly rewarded for her efforts. But since Jane obviously didn't see it that way, there wasn't any point arguing about it. He smiled and stood up. Jane was a smart woman, he thought, but she had a pretty funny idea of how to run a business.

As Jane opened the door, much the same thought occurred to her about Jim.

Chapter Three

Preparing for a Seven-S analysis

Jim felt pleased with himself. He had been in the job a month and was confident that he now had a firm understanding of his division. He had introduced several small but significant changes. As a result of several long discussions with Jane he knew the workings of Seven-S inside out and was ready to press ahead with his own Seven-S analysis.

He had called a meeting with Eric and Dave to determine how to go about it. Eric's genial personality and tenacious approach to solving problems had already impressed him. As a regional director not only was he on top of his own region, he also had a

good grasp of how the mortgage division as a whole operated. Jim considered him one of his most enterprising managers. As for Dave, Jim already knew where his abilities lay. With this in mind, he had decided in advance how to allocate responsibility for components of the Seven-S analysis, and how much time to allow for its completion.

Jim would ask Dave to co-ordinate a full Seven-S for the current situation: the 'from what'. Jim would personally take on Strategy, Superordinate Goal, Staff and divisional Style for the 'to what' component; after all, Jim was solely accountable for their success. Dave and Eric would have accountability for Systems.

As far as Structure was concerned, Jim would take primary responsibility but would enlist Dave's help. Between them, they would analyse what the division had and what it should have—especially in terms of levels of management. 'It doesn't take a rocket scientist to see that we have too many,' he had told Dave who had winced a little at Jim's unsubtle appraisal, but nodded his agreement nonetheless.

Dave and Eric arrived for the meeting right on time; Jim was a few minutes late. He began by giving them each a list of their Systems assignments (shown on next page). They were split into performance systems and operational systems, performance systems being those that are general to any organisation as they

define roles and tasks and allow for their monitoring and review, and operating systems being the business processes applicable to the mortgage division.

Systems assignments

Dave	**Eric**
Five performance systems	*Operational processes*
• Role definitions	• Referrals process
• Task defining	• Sales process
• Task monitoring	• Credit processing
• Operating review	• Mortgage processing
• Performance review and pay for performance	• Data mining processes

He gave Dave responsibility for the performance Systems. Eric would handle operational Systems and also provide a from what—to what analysis of the sales skills and data mining skills of the division. He would also identify what support the division received and what it should receive from areas such as credit, mortgage processing and information technology.

'Neither of you can really do a "to what" description until I have laid out my plans for the division,' said Jim. 'First I'll give you my emerging Strategy and from there you'll get an idea of Superordinate Goal and Style.'

He handed them each another sheet (shown below). 'These are what I see as the key strategic issues we face right now.'

Key strategic issues facing the mortgage division

1. What will our *product offering* for each segment in the market place be?
2. How will we change our *marketing approach*?
3. How can we *leverage data mining* to lift leads and manage roll-off?
4. How are we going to massively lift *sales force performance*?

'I'd like us to talk these through,' he said, 'but first I'd like you to have a look at this.' He pulled another document from his briefcase and handed copies to Eric and Dave (shown on next page).

CONFIDENTIAL

Emerging ideas to address strategic issues

1. **Product offering:** In this area we are not going to be beaten in the marketplace. We will need to have a suite of products, ranging from a vanilla product that meets the specialist low-priced mortgage lenders head-on, to more tailored products for the high income segment. Vanilla products will be plain and simple. The tailored products will have bundled pricing, with profitable offsets from other services. From a product–service point of view, we need to have a four-hour response on enquiries and we need to develop digital paperwork that is extremely simple.
2. **Marketing:** Again, we are not going to be beaten. We are going to have share of voice above targeted share of market. We are going to be 'the news'—so if there is a move in interest rates, if there is a new product, we are going to move before anyone else. And we are going to teach our competitors through our marketing voice that we are not going to be undercut. I believe, eventually, this will reduce the price-based competitiveness of the market.
3. **Data mining:** This is our major differential advantage. We have three million customers, half of which treat us as their primary financial relationship. We should be able to mine our accounts for new customers and we have to reduce the roll-off from the current book. Furthermore, I want an analysis of every postal code to identify market size and our share by consumer segment.
4. **Sales force:** There is a lot we have to do here. I want weekly flash reports and fortnightly meetings of the sales force and monthly meetings of the regional managers. Results should be extremely public so everybody can see who is winning and who is losing. We have to increase the number of mobile managers. They must have cars and networked laptops. They have to be out and about. They have to be available seven days a week. I don't want the sales force doing anything other than selling mortgages. I want pay for performance and I want to 'variablise' the cost structure. If we don't sell mortgages, we don't pay salespeople. It will be like a franchise, where they operate a small business under the umbrella of our brand, research and capital structure.

Dave and Eric carefully read both documents, glancing at each other from time to time without speaking. They understood at once why the second page was marked ‘Confidential’. Focusing on individual sales performances was a radical departure from the bank’s usual policy, but they realised it was unavoidable.

What Jim had written on product, the market and data mining were different from what they were used to but hardly radical. His ideas on the sales force, however, represented a major cultural shift for an essentially conservative outfit like First National. Without giving them time to comment, Jim continued: ‘I haven’t written this down, but in addition to what you read there, each quarter I want the bottom 10 per cent of our sales force to leave the division.’ He could see Dave and Eric were shocked. ‘Dave, Mike will want to place people elsewhere wherever possible, but I think he’s going to have trouble with the numbers I’m proposing. Your job is to work with HR on retrenchment packages and any redeployment options that might be appropriate. By the end of the year we’ll have taken out 40 per cent of the sales force and added 10 to 20 per cent of top performers. I want our sales reps averaging six to eight mortgages a week, not the current two to three.

‘Our financial goal and our Superordinate Goal are

the same,' he went on. 'In other words, our Superordinate Goal is to meet our financial objectives. We are going to end up with an 18 per cent market share and $200 million profit. We are going to be a successful, well-integrated, aggressive, competent group of professionals who meet commitments.'

Jim waited a few moments for things to sink in. He wanted them to understand that these were not numbers plucked out of the sky but strict performance targets.

'Finally,' he said, 'in terms of Style, it's going to be "pay for performance". If people do their job and achieve their targets, they will be rewarded. If they don't, they're going to leave. No hard feelings, but they'll have to go.'

Dave and Eric listened in silence, taken aback by the bluntness of Jim's proposal but exhilarated by the knowledge that at last the division had a decisive leader who knew what he wanted.

'There you have it,' said Jim. 'That's what we have been hired to do and we are going to do it. Now you know what we're after I'd like you to get stuck in and do your analysis. You can interview anyone you like inside or outside the organisation. I want you to review all major systems and documentation. You can sit in on any meetings you want; talk to ex-employees and customers; nose around in other

divisions. I want you to get a really good picture of how the division is currently working.'

Eric was the first to speak. 'Jim, what you're saying makes sense but it's very different from how we do things today. How much of this do you want known?'

'No public debate,' Jim said firmly. 'What we've discussed at this meeting is absolutely confidential. I want to get all of our ducks in a row and have the plan approved before we go public. This is going to shock a lot of people here. When I deliver the shock, I want to be clear about the way forward. So I don't want this signalled. It would upset people and affect their work. I don't want them to have time to worry.'

'Fair enough,' said Dave, knowing he would be doing most of the dirty work. 'But this Seven-S business, Jim. I like the sound of it but I don't see how it helps us conceptualise the structure we need.'

'It doesn't,' replied Jim. 'The Seven-S is descriptive, not prescriptive. We're just going to have to sit down and go through the organisational chart and decide what we want. We'll work on it together, so don't worry about it right now.'

Jim stood and thanked them for coming. He was happy with the way things had gone, and Eric and Dave seemed eager to begin, obviously deep in thought as they absentmindedly gathered their pens, diaries and notes. 'I'll give you 10 days,' he said, 'to

come up with your “from what—to what” analysis. We’ll put aside a whole day to discuss the results. And remember, it’s not just me you’ve got to impress; it’s Mike. He’s the one who’s got to sign off on this. Mike’s a conceptual thinker so we’ve got to make it good. And in case you think it’s going to be easy, he hates laying people off and disapproves of pay for performance. I don’t agree with him on that, but he’s going to take some convincing.’

The others were halfway to the lift when Jim called out: ‘That structure meeting, Dave. How does 7.30 tomorrow morning sound?’ Dave glanced at Eric before answering.

‘Sounds terrific, Jim. What’s for breakfast?’

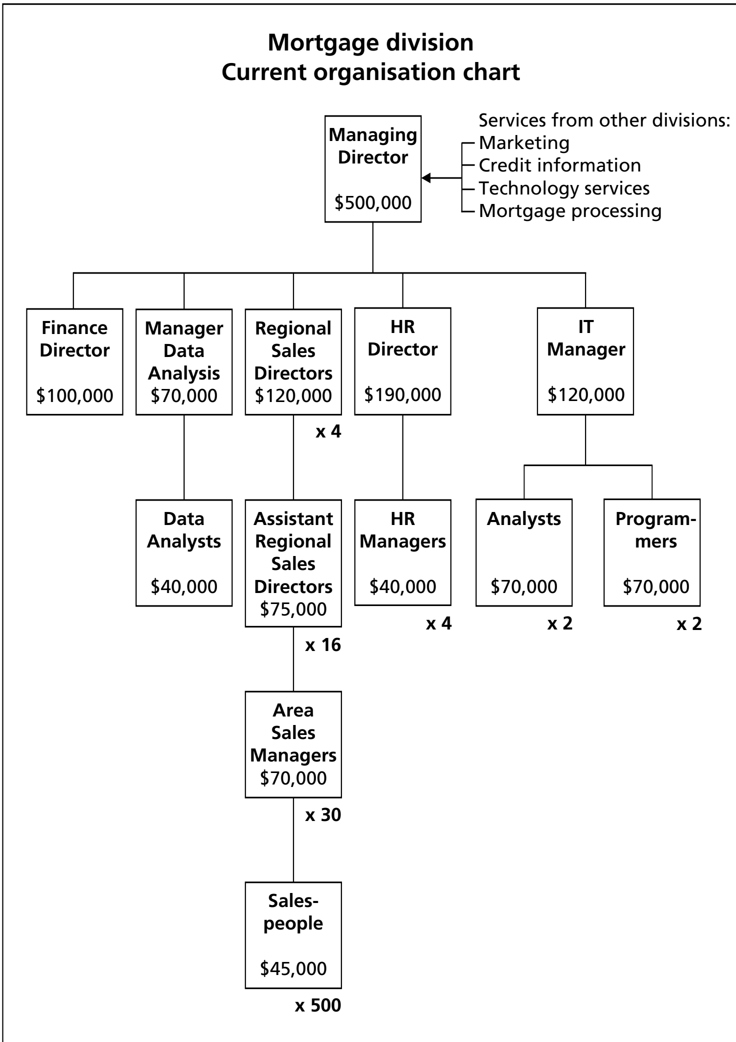
Chapter Four

Addressing the issue of structure

Dave arrived at the meeting with a chart of the mortgage division's current management structure, detailing the numbers of people at each level and their respective salaries (shown on next page). He clipped it to the whiteboard and stepped back to let Jim see.

'Alright, Dave,' said Jim. 'Tell us what you make of it.'

Dave drank a mouthful of the coffee which Jim had poured, then uncapped his whiteboard marker. He scribbled furiously as Jim studied the chart.


Mortgage division
Current organisation chart
Managing Director $500,000
Services from other divisions:
Marketing
Credit information
Technology services
Mortgage processing
Finance Director $100,000
Manager Data Analysis $70,000
Regional Sales Directors $120,000
x 4
HR Director $190,000
IT Manager $120,000
Data Analysts $40,000
Assistant Regional Sales Directors $75,000
x 16
HR Managers $40,000
x 4
Analysts $70,000
x 2
Program-mers $70,000
x 2
Area Sales Managers $70,000
x 30
Sales-people $45,000
x 500

‘There are five issues,’ Dave said finally. ‘That is:

1. Brainpower in your direct reports
2. Too many levels of management
3. Sales force productivity
4. Mismatched job titles
5. Power of service departments outside the division

‘The first problem is that there isn’t enough brainpower in your reporting line. Look at the level directly underneath your position, Jim. Most of them aren’t up to doing the sort of job we’re talking about.

‘I know it’s not the only criterion, but you get some idea by looking at the salary levels. I’m getting paid $190,000 and you’re on a base of $500,000. The regional sales directors are getting about $120,000, the same as the IT manager. Donna in data analysis is on $70,000 and the finance director is getting $100,000. It’s all over the place. We’re never going to get the job done unless we put some real muscle in there, and pay for it. My gut feeling is that all your direct reports should be worth paying around $200,000.’

‘I’m with you on that,’ said Jim, ‘but let’s put that aside and come back to it. What are your thoughts on the number of levels of management in sales?’

‘You must be psychic,’ Dave said. ‘That was my next point.’ He explained that sales was a big problem. The division had 30 area sales managers and about 500 salespeople, so each area manager had 16

or 17 people reporting to them. 'I'm not sure how area managers can add value to the sales force,' he said, 'because they sure as hell can't be managing them. Not with that span of control. This applies right up the line to the regional sales directors. I can't see how each level is adding value to its subordinates. At best, it seems to be firefighting, kicking arse and sorting out trouble, but not adding value. In short then, our span of control and sheer numbers forces us to have too many management levels. We've got to do something about it.'

Dave paused to finish his coffee. Jim was no great shakes as a coffee maker but he was an attentive listener. He hadn't touched his own.

Dave continued: 'Now look at point (3)—sales force productivity. We have sales force salaries ranging from $40,000 to $90,000. The average is about $45,000, plus $5,000 in a very wishy-washy incentive.'

'Can you break those numbers down?' asked Jim.

Dave had anticipated the question and had the figures in his head. 'At the top,' he said, 'we have 40 good performers selling five to six mortgages a week. In the middle we have 200 to 300 who are just cruising along, doing what's asked of them. They average about two and a half mortgages a week. They're the ones earning $45,000 plus the $5,000 incentive. Then at the bottom there are maybe 150

who are earning about $40,000 a year and managing less than two sales a week. The sales team at Kookaburra Loans does six to seven sales a week each, just from cold calls.'

'Those figures are terrible,' said Jim. 'Worse than I thought.'

Dave went on: 'Sales force productivity creates its own organisational problem. It's hard to manage 500 salespeople, but we need that many because most of them aren't pulling their weight. Poor performance begets wide spans of control, thus poor management, and vice versa. If they were all top-drawer salespeople, we'd only need about 200, and they'd be easier to manage. So we're in a negative loop by being unable to manage people well enough to get them to perform.'

He pointed to the next heading on the whiteboard. 'Job titles, Jim. They're a shambles. You have a combination of directors and managers reporting to you. Reporting to them are managers and assistant managers. There's no logic to it.'

'You're right,' said Jim. 'I'd like it to be really clear about who is a director, who is a manager and who is neither. Titles should mean something. They should signal the type of work being done and the level at which the person is operating.'

Dave indicated the final item on his list. 'The last

thing is that our division is reliant on the service level of the credit department, IT and the mortgage processing centre. The reality is that those guys are actually driving us at the moment, when we should be driving them. We don't have any means of forcing our needs back into the system; we just accept what we get. I don't mind betting that when the time comes, we won't get the level of service we need to compete.'

By now it was clear to Jim that he would need to make more changes than he had originally thought in order to ensure the performance he wanted. He knew that would mean not only shedding a significant number of staff, but also bringing in more people at a higher level and paying them more. It would take a rigorous and detailed proposal to get those changes approved by Mike. It wouldn't be enough to tell Mike that there wasn't enough brainpower in the organisation. And whatever explanation he gave, he knew Mike would baulk at having a new string of $200,000 a year executives.

Jim also realised that he would need someone with enough power and political influence, as well as skill, to push credit, IT and the mortgage processing centre into providing his division with the support it needed. All in all, his job, like the Hydra, had just sprouted a few more heads.

~

Retiring from competitive rugby hadn't killed Jim's love for the game. He still trained with the Eagles twice a week to keep fit and usually followed training with a few drinks at the bar. That evening he had arranged to meet Andrew Syndon, an Eagles board member, to talk about his new job.

Andrew was in his mid-50s, with an accent that floated somewhere between Sydney and San Francisco, and a great sense of humour. A PhD in mathematics and ancient Greek philosophy, with an MBA, Andrew had been CEO of a large American-based multi-national until his wife became ill with cancer. When she died, he left the company and now spent most of his time as a management consultant, working with major corporations and leading academics.

Andrew was an ardent Eagles supporter and considered Jim the best skipper the club had ever had. Over the years the two had got to know each other well. Andrew had become a mentor to Jim, who relied on his advice, at least on business matters.

What Jim hadn't known until this evening was that Andrew had worked with Waterman and Peters in San Francisco when they developed the Seven-S model, and since then had pushed the model a lot further in collaboration with Dr Elliott Jaques, one of the founders of the Tavistock Institute.

'How come you never told me?' asked Jim.

'Because you never asked,' said Andrew. 'Besides, Jim, I didn't imagine Seven-S was your kind of thing.'

'It wasn't,' Jim admitted. 'But now I think it might be.'

Jim was all ears as Andrew summarised how Dr Jaques' concepts addressed structure. Jaques' research, he said, had led him to conclude that each managerial level was, or should be, a reflection of the intellectual development of the person occupying it. That way, a manager legitimised his or her authority by adding value to subordinates by being able to solve more complex problems. In other words, legitimate management levels reflect discrete levels of human intellectual development.

'I don't want to ambush you,' said Jim, 'but would you object to looking at some charts we've drawn up showing the way things are currently organised in the mortgage division? I'd like to hear your opinion.'

'Buy me another drink,' Andrew replied, 'and you can have all the opinions you want.' He pushed his empty glass towards Jim. 'But I'll tell you one thing now. Structure is the key. Get that wrong and everything else will be out of whack. I've learnt from experience that a performance culture revolves around getting clarity in your structure. Without that, you're wasting your time. A poor formal struc-

ture will undermine your efforts in every area, especially leadership.' He fished a black leather diary out of his jacket pocket. 'How about next Monday?'

There was a lot that Jim would have liked to ask at once—how, for instance, did one define a 'poor formal structure'?—but he knew it would have to wait. 'Monday's perfect,' he said. 'Ten o'clock?'

'I'll be there,' said Andrew. 'Now where's that beer?'

~

The next day, Jim and Dave met in the bank's staff cafeteria. Sitting at a table in the corner, Jim removed the radishes from a rather weary-looking salad. 'You've tackled our current Structure, and identified the key issues,' he said. 'How about giving me your thoughts on the other S's? What about Strategy?'

Dave shook his head dismissively. 'If you judge by the results, there was no strategy at all. Market share dropped from 20 per cent to 14 per cent.'

'But there must have been some strategic orientation,' said Jim, 'even if it failed.'

'I'd call it an implicit strategy,' said Dave. 'It hardly amounted to more than the bank's acknowledging that mortgages were part of its total product delivery to customers. For example, the sales force was only reactive to the needs of the bank's existing customers.

Their strategy was to respond to a customer's need when it was expressed. On pricing, we were followers. We never led. In fact, we weren't just followers. We were reluctant followers. All up, our strategy—if you can call it that—was to respond. We were content to let business come to us.'

'What about Style?' asked Jim. 'How would you describe the organisation's style?'

Dave lifted the top off his sandwich and peered at the contents. He appeared vaguely satisfied with what he saw, and ate the sandwich while considering his reply. 'It has several dimensions,' he said at last. 'It's very communal. People do things for the bank as a whole. There is little individual accountability. A sense of group responsibility, but no accountability. The division doesn't act as an entity in its own right and the individuals in it don't have an individual performance style. This is reflected in our performance systems.

'There is a pay-for-performance system in place. But it is counter-cultural and very badly structured. Goals are soft. There are no flash reports. There are no monthly reviews in the consequential sense of the word. There is a formal annual review by managers but the data required to do the review is pretty dodgy and old. So, at the end of the day, everyone comes out average. There are no clear winners or losers.

'This informal collegiate style flows over to our service providers inside the bank. In the past, our style has been to do what is best for the bank as a whole and meet everybody's needs accordingly. For example, we accommodate the mortgage processing centre's desire to keep their costs down, rather than tell them what the customer needs. Our approvals take six weeks—15 times longer than Kookaburra's.

'Similar problems affect the service we get from IT. They tell us what we can do in data mining. We don't tell them what we want. Hence our high roll-off numbers.

'It's a little different with credit. We have abdicated our responsibility and handed everything over to credit. The staff in credit might be pretty smart, but I reckon we could develop credit processes that are a whole lot faster if we worked together.

'At the moment, credit doesn't understand our customer needs. They only understand their needs and that doesn't include credit processing decisions in four hours. So our Style rests broadly on a "bank-team" ethic, a sense of team responsibility. It sure as hell isn't performance-related, with individual accountability.'

Jim delivered the remains of his salad into the hands of a passing waitress. 'So how,' he asked, 'would you explain the difference between responsibility and accountability?'

'That's easy,' Dave grinned. 'When you're responsible for something going wrong, you feel bad. When you're accountable for it going wrong, you get fired.' He leaned forward to rest his elbows on the table. 'As you know, Jim, accountability isn't something we see much of at First National.'

'And what about Superordinate Goal?' asked Jim.

Dave hesitated, idly rattling his coffee cup on its saucer. 'I've got to tell you, Jim, when I read this stuff on Superordinate Goal, I find it a little wishy-washy. It goes back to some of the Style issues. For many of those working here, the Superordinate Goal was simply to belong to the bank and enhance its overall position; to be polite to each other, not disturb the peace, and solve problems without causing offence. Frankly, I think the broad Superordinate Goal was not to rock the boat.'

Jim knew that Dave's blunt assessment of the situation was accurate. The bank's mortgage operation had lost six share points—more than 30 per cent of its business. That could only be seen as an indictment of the bank's management. He knew how hard it was going to be to convince Mike to move to a more formal and accountable style, but he also knew he had to succeed if he was going to get the division back on its feet. He was confident of being able to give a persuasive account of where they should be

heading with Strategy, Superordinate Goal and Style. But he remembered what Andrew had told him about the importance of Structure. Getting that right, he'd said, would make it easier to sort out Systems, Skills and even Style.

As they left the cafeteria, Jim patted Dave on the back. 'Once we've turned the business around,' he said, 'maybe we can get to work on that menu.'

Chapter Five

The start of levels theory

Andrew and Dave chatted for a few minutes while they waited for Jim to join them in the conference room. They had met before, when Dave played breakaway with the Eagles, but had not seen each other since the injury that ended Dave's rugby career. Dave had pretty much lost interest in the game after that. He worked long hours during the week and preferred to spend his weekends with his wife and their three young daughters. But he was pleased to see Andrew again.

Jim had formally signed Andrew up as an organisational consultant, and had faxed him a copy of the

mortgage division's organisation chart, an enlarged version of which Dave now Blu-taked to a whiteboard. 'Might as well get started,' he said.

Andrew realised at once why Jim valued Dave's work. He had an excellent knowledge of the bank's operations and gave a lucid account of the difficulties they faced in getting the mortgage business back on its feet. The two main problems, he explained, were the inadequacy of those reporting to Jim, and the duplication of management levels, especially in the sales function.

'So how many levels do you think there should be?' asked Andrew.

'I'm expecting you to tell us the answer to that,' replied Dave. 'I'm going on instinct here. I don't know the theory. I know there's too many levels but that's all I know.'

'That's a fair start, Dave,' said Andrew, 'but you'll need something stronger if you're going to get Mike to buy it.' He looked around as Jim walked into the room. 'What I'm going to give you is a logical framework that will deliver the answers.' He waited for Jim to sit down. 'The first thing we need to get straight is what we mean by the word "manager". Then we'll tackle the following questions:

- What is the correct number of management levels?
- What are the consequences of having either too

many or too few levels?
- What are the benefits of having the proper number of levels?'

He took off his jacket and hung it carefully on the back of his chair. 'Jim, you start us off: what's your idea of a manager?'

Jim thought for a while before answering. 'A manager,' he said, 'is someone who works with a group of people, setting the direction they should go, assigning jobs to them, making sure the work gets done and correcting problems when things go wrong.'

Andrew nodded. 'Dave, anything to add to that?'

'Well,' said Dave, 'a manager is the person who sets policy and procedures that other people have to work to. A manager also reviews others' performances and judges whether those performances are any good or not.'

'That's the gist of it,' said Andrew. 'But they won't do as definitions. Any scientific or conceptual approach to problem solving must have clarity of definition. I'll give you an analogy. A steam turbine and a car motor perform different tasks but they're both engines. Both obey the same laws of physics. They are dissimilar in terms of cost, capacity, function, etc, but their basic operating science is the same: they convert energy into mechanical work. The same idea applies to organisations. Organisations

might perform different tasks, but the science is the same, and science needs precise definition.

‘What I’m going to give you is a crystalline definition of a manager. That way you can decide who is and who isn’t a manager. We cannot determine appropriate levels of management until we are clear on just what defines a manager. So here goes. A manager is someone who is held accountable for somebody else’s work. It sounds simple, doesn’t it? But we need to be aware of the consequences of such a definition.

‘Think about it. Jim, you are held accountable for Dave’s work. If I worked for Dave, he would be accountable for my work. When I say accountable, I really mean accountable. If I screw up, Dave can be punished.’ He looked at Jim. ‘When you went through your job-courting phase with Mike,’ he said, ‘did you know that you were going to be held accountable for the division’s performance?’

‘Of course,’ replied Jim. ‘It was quite clear that if I didn’t do my job, I wasn’t going to be around for long. Mike is a nice bloke, and we’re friendly to each other, but the underlying reality is that if I don’t do my job, I won’t have a job.’

‘Alright,’ said Andrew. ‘So tell us what you did when you talked through the job?’

‘Knowing that I would be accountable for the division’s output, I told Mike that I needed to get a

few things sorted out. I needed to be sure the people in my division reported to me and only to me. I wanted the authority to change the structure and reallocate staff. I wanted to be allowed to install a pay-for-performance system. And I wanted the power to select my team and to fire anybody who wasn't up to scratch.'

'And you had every right,' said Andrew. 'As I said before, if a manager is accountable for somebody else's work, then logically the manager has to have some authority over the staff or the manager will be personally exposed to—and accountable for—the possible poor performance of their subordinates, without being able to do anything about it.'

Andrew handed both men a printed sheet (shown below).

A manager and the four authorities

A manager is an individual held accountable for somebody else's work. To validate this situation, a manager needs four authorities.

1. To be the prime assigner of work to subordinates.
2. To select the people working for him or her.
3. To review and reward performance.
4. To be able to remove people from the workgroup.

'These are fundamental requirements for any manager,' he said. 'If a manager doesn't substantially have these authorities, there will be a diluted sense of accountability in the business and a soft performance culture.'

Jim nodded. In the past he had often worked as a manager without having all those authorities and it had made life very difficult. When negotiating with Mike, he had made sure he had them. Otherwise, he told Andrew, he wouldn't have taken the job.

Andrew continued: 'Having these authorities gives a manager the necessary authority over his or her subordinates. A manager with all four authorities can grow and develop a subordinate or make life hell for them. In short, a hierarchical authority structure has been created. The question is, what legitimises that authority structure?'

Feeling that the question was directed at him, Jim tentatively suggested that the role itself gave a manager some authority—although that wouldn't last long if the manager couldn't actually 'add value' to his subordinates.

'Meaning what, Jim?' asked Andrew.

'If I'm to have a decent relationship with Dave,' said Jim, 'I have to be able to help him do his job better—in other words, "adding value" to Dave. If I can't do that, then I'm wasting everybody's time—I'll

be nothing more than a postbox and I will get in Dave's way.' Jim paused, as if the principle was suddenly becoming clear. 'In that case I would have no legitimate right to exercise my authorities.'

'You've touched on a crucial point,' said Andrew. 'A manager, to be legitimate, must have higher conceptual abilities than the subordinate. Unless he or she can add value, the relationship is both illegitimate and inefficient. It sounds uncompromising, Jim, but the bottom line is that managers must by definition be more intellectually capable than their subordinates.'

'That's all very well in theory,' interrupted Dave, 'but how does it work in practice? If every manager is more capable than their subordinates then what is the optimum number of management levels?'

'Good question, Dave. I wondered when you were going to ask.' He walked over to the whiteboard and drew a triangle. 'There are two fixed points in the mortgage division's structure. At the top, there is Jim, the managing director. I am going to call him a P&L-accountable MD. At the bottom, there are the salespeople. The space between represents the intellectual space in which to insert each level of "value-adding" management. I say intellectual space, Jim, because hopefully your intellectual ability justifies you earning 10 times more than they do.'

'Iffy,' Dave said mischievously.

'Alright, Dave,' said Andrew, 'we'll give him the benefit of the doubt. Now, let's imagine there were 10 levels of management between Jim and the salespeople. How do you think that would work?'

'It wouldn't,' said Dave. 'There would be too many levels and we wouldn't be able to build any accountability into the system. You wouldn't know who was accountable for what and therefore you would compromise the four authorities.'

'What do you think, Jim?' asked Andrew.

'From an HR perspective,' Jim said, 'there are six performance systems within the division:

- Role descriptions
- Task defining systems
- Task monitoring systems
- Task review systems
- Performance review systems
- Pay for performance.

'If there were 10 so-called managers between the salespeople and me, none of those systems could work effectively. There wouldn't be enough space at each level to add value to the work. It would be impossible to define roles and tasks properly. And if a task can't be properly defined, it makes pay-for-performance a nonsense.'

'So what would happen to costs?' Andrew asked rhetorically. 'I'm sure you'll both agree that they

would be exorbitant. There would be too many people in the system. The extra levels would dramatically slow down the decision-making process, because each level would want to add value to the other levels, and they would be controlling and monitoring what their subordinates were doing so they could justify their own positions. The simple answer is that having too many levels blows out costs and destroys initiative.

'Now let's look at the opposite extreme: putting only one level between Jim and the sales force? Let's assume you're earning $400,000 a year, Jim. The salespeople are on about $45,000 and the person between you is a manager on about $130,000. Would that work?'

Jim thought about this for a moment. He could see there were different ways of answering the question, but that they amounted to the same thing. As divisional manager, he would be thinking about long-term programmes such as how to reduce roll-off, how to achieve more sophisticated market analysis and how to use pricing to target different market segments. He would expect the person beneath him to be putting those programmes into practice. If, however, there was only one intermediate level then that person would have a full-time job managing the short-term needs of the sales force. He

or she would be preoccupied with the problem of making sales today or next month and would have no time for the longer-term issues.

Jim's subordinates would therefore sense a gap between Jim's expectations and what they were capable of delivering. Their primary concern would be making this month's sales budget, while Jim would keep mouthing 'airy-fairy stuff' that was two, three or five years out. 'Both of us would be as frustrated as hell,' Jim concluded.

'Exactly,' said Andrew. 'That's just what occurs when there are gaping holes in the levels of an organisation—when the person reporting to the manager is not able to act as translator of the manager's programmes. The manager then has two choices: they can work at a lower level and get frustrated, or stay at a higher level but be unable to get long-term programmes executed. Both are equally destructive, and equally demoralising for both parties.'

'Fair enough,' said Dave. 'Now we know what a manager is and the pitfalls of having too few or too many levels of management. But you still haven't told us how many levels there should be.'

Andrew had been about to suggest a break, but decided instead to press on. 'You remember me telling you about the work of Dr Elliott Jaques,' he said, looking at Jim.

'Dr Jaques argued that "requisite levels of management" were a direct reflection of discrete step-by-step levels of intellectual development in adults. Now it ought to be pretty clear that we will encounter different levels of intellectual capacity as we move up the hierarchy. In other words, a senior manager on $400,000 should have a different skill base than someone lower down the hierarchy on, say, $140,000. We have assumed the senior manager can add value and solve more complex problems.

'Dr Jaques' research suggests that the base of the employment pyramid is usually Level I and that you, Jim, are operating at Level V. With that in mind, Jaques would say that three levels of management are needed between you and Level I.'

Andrew handed Jim and Dave a chart (shown on facing page) depicting an orthodox management pyramid.

'Dr Jaques discovered when he interviewed each level of management that there was a lengthening pattern of timeframes in which these people were working. The P&L-accountable managing director at Level V would be working on issues with a much longer timeframe than, say, a machine operator at Level I.

'An operator's daily responsibility for seeing a task to completion might span a few hours, or even a few

Requisite levels

Research has found that five levels are requisite for a fully developed P&L-accountable business unit. This ensures that value is added at each level, thus legitimising the authority of each level of management.

Level		Approximate pay in Australia	Longest timeframes
V	MD	To $500,000	5–10 years
IV	GM	To $250,000	2–5 years
III	Dept Manager	To $160,000	1–2 years
II	First Line Manager	To $90,000	3–12 months
I	Operator	To $50,000	0–3 months

minutes. On the other hand, a managing director, as well as having short-term tasks, would be accountable for long-term tasks—for example, strategic decisions that might not bear fruit for another five or 10 years.

'Further research enabled Jaques to identify the time span of every task for which each employee was held accountable. He found a regular pattern level by level. The frontline guy, Level I, has no task with a duration longer than three months. For a Level II line manager, the longest time span is from three months to a year. A Level III department manager's time span stretches out to two years. A general manager at Level IV is accountable for tasks that span from two to five

years. At Level V, important strategic tasks can extend from five years to 10 years.

'So what Jaques discovered was a hierarchy symbolised by lengthening time spans, and that these were matched to the intellectual development of the person involved. In practice, he found that if you give, say, a Level II individual a task suited to someone at Level III then they will reduce the timeframe, asking for regular re-orientation from their manager, effectively delegating the task back to the manager.

'By contrast, if you consistently give a Level IV person tasks with a Level III timespan, they become bored, unhappy and fractious, and try to create more complex work for themselves.'

'In other words,' said Dave, 'they start empire-building.'

'Correct,' replied Andrew. 'Time to complete a task becomes a surrogate measure for the complexity of the task and the corresponding intellectual capacity needed to handle it. The distribution of levels is pretty consistent. If you look at the range of developed intellectual capacity in all adults, you find few people at Level V. There are more at Level IV, more again at Level III, a lot more at Level II and the greatest number at Level I. That's why we have pyramidal structures. The highest capacity is at the

top and the lowest at the bottom. Value is added level by level through the hierarchy. Higher levels of capability help legitimise managerial authorities, and therefore the hierarchy itself.'

'You mentioned salaries,' said Jim. 'Can we take them as a reliable indicator of intellectual development?'

'Yes,' replied Andrew, 'provided the organisation is properly structured. Each level tends to correspond to a salary band. In Australia you will see a Level I earning up to $50,000 a year, a Level II up to $90,000, Level III up to $160,000, Level IV as much as $250,000 and Level V up to $500,000.'

'Do these distributions still hold true for the exact time spans described by Jaques?' asked Dave.

'Not always,' said Andrew. 'Jaques' work is very illuminating from an academic point of view but when I talk to managers in the field, I simplify the theory by downplaying the specific time spans at each level. Most people know instinctively that a manager will be working to a longer time span than their subordinates. Defining specific time spans just provokes unnecessary debate.' He capped the marker he had used to draw on the whiteboard. 'Which strikes me, gentlemen, as a pretty good place to stop. But before I forget it, now we have a clear idea about levels and the need for one manager at each level, let

me leave you with a more formal explanation of what occurs with too many levels, and with too few or compression of levels.'

He pulled out three exhibits (shown on the following pages). 'I'd like you to take special note of what happens to leadership. Now I think I've given you enough to think about for one day. Which of you is going to save me from the torments of the company cafeteria?'

~

That evening, Jim and Jane met after work in a bar across the street from the office. It was usually quiet on a Tuesday evening, and only a couple of regulars were sitting in the lounge area.

They sat at a booth well away from the others. It was Jim's idea they go out for a drink. Besides wanting to smooth things over after their rather fraught meeting at work, he was keen to sound Jane out on Mike's likely reaction to major changes in the mortgage division.

Jane had been quick to say yes. She too felt awkward about their last encounter and thought it would be good for both of them to sit and talk. No doubt the subject of work would come up (she knew Jim would ask her what Mike would be thinking), but she hoped that Jim would loosen up a bit outside the

Problems with *too many* levels of management

High cost, slow acting bureaucracy with no leadership or membership

Hierarchy with too many levels

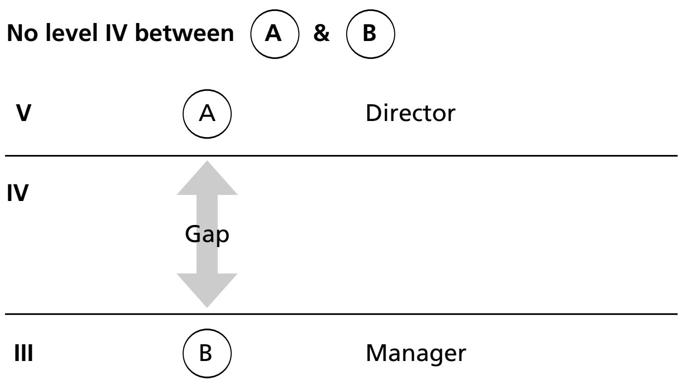
IV	A	Director
III	B	Department head
	C	Assistant department head
II	D	Supervisor
I	E	Operator

Problems

- ‘B’ becomes an extra communication link slowing down decisions as ‘B’ strives to add value to ‘C’
- ‘B’ tries to take a leadership role for ‘C’ but actually can’t add value
- ‘C’ sees ‘A’ as real boss but has to talk to ‘B’
- No clear accountabilities for ‘B’ and ‘C’ separately
- ‘C’ and ‘B’ both working well below capability
- Confusion as to who takes over leadership role for ‘D’, so ‘D’ isn’t actually led at all
- All underlying systems like task setting, task monitoring, reporting and performance review are confused
- Teamwork very difficult to realise

Problems with *too few* levels of management

Inability to execute high level programmes, dissatisfied boss and anxious subordinates who are trying their hardest but can't deliver



Problems

- 'A' can't get across to 'B' what needs to be done. There is no 'translator'. 'A' either gives up on 'B' or has to come down to Level IV at significant personal and corporate cost
- 'B' is in a state of constant anxiety as 'A' talks about long time span tasks but 'B' knows his or her accountabilities are more immediate. 'B' often searches out a surrogate manager to help him or her understand 'A's' needs
- Team and leadership behaviours are impossible

Note

- The frequency of too few levels used to be minimal. It's now much more common as new CEOs try to drag up the level of competency of their organisations in order to compete

Problems with *compression*

The number of levels is right, but the boss is acting at too low a level. Compressing the organisation results in difficulty in keeping good people and probably a competitiveness–performance doom loop

	Title	Appropriate time horizon	Actual time horizon	
V	MD	5–10 years	1–2 years	**Too low a level MD**
IV	Director	2–5 years	3–12 months	
III	Manager	1–2 years	0–3 months	**Therefore too many levels**
II	Frontline Supervisor	3–12 months	0–3 months	
I	Operator	0–3 months	0–3 months	

Problems

- Everybody unhappy
  - Boss because high level work isn't being realised
  - Subordinates because they feel
    - they are not being utilised properly
    - they are not respected, not developed nor treated fairly
- Improvement programmes are unsuccessful, while competition may be getting ahead
- Leadership and team behaviours are impossible to realise at all levels below CEO

office. She guessed that he was still unsettled after his divorce. Right now her own private life was nothing to gloat about, so they had that in common, even if they didn't see eye-to-eye on management styles. But that was getting better. They had attended various office meetings together and talked most days on the phone. However, this was the first time they had arranged to meet outside work.

Jane insisted on buying the first round of drinks. When she sat down, Jim told her about the session with Andrew. Jane found his concise definition of a manager made sense. But what really sounded interesting was Elliott Jaques' theory about the hierarchy of management levels. She had experienced problems with some of her own team leaders and wondered if she had misjudged their abilities. Jaques insisted that leaders who weren't one level above their teams were unlikely to lead well.

'By the way,' said Jane, 'I think they know each other.'

'Who?' asked Jim.

'Mike and Andrew. For years Mike was on the board of Australian Mines. He told me once about a friend, a management "guru" named Andrew who was responsible for introducing levels theory across the company's entire business—about 40,000 people.'

Jim wasn't surprised by the news. Andrew wasn't

the kind of man who went round dropping names. He had friends among the heads of many of the world's leading companies but he rarely mentioned them. He probably thought it would distract Jim to know that he and Mike were friends.

'Even so, Jim,' said Jane, 'I think you're going to have your work cut out convincing Mike. He's not going to like hearing that your plan involves a massive retrenchment of salespeople. You know he hates getting rid of staff. You're going to have to make a damn good case if you're going to change his mind.' She patted his hand. 'I wouldn't mind being there to hear it.'

Jim couldn't help noticing the change in her voice, a warmth that implied she was in no hurry to leave.

'You know, Jim,' she said, 'you've almost talked me into thinking about how levels theory could apply to my own division. If you bring back some chips with the next round I think I could be persuaded.'

Jim stood up and fished for his wallet. 'Now that's what I call a challenge,' he smiled.

Chapter Six

Further development of the concept of levels

'Ready for part two?' Andrew asked brightly as he hung his coat over the back of a chair. 'I want to expand the idea of levels of competency by looking at levels not just from the perspective of time span but also the number of functions that managers need to be expert in and to cross-integrate to get their job done.

'In short, at senior levels managers need to be expert in a large number of functions while at lower levels employees tend to be expert in few functions. That's a more concise definition of what I mean when I say managers need to be more capable than their

employees, and be at a higher level of intellectual development.'

He erased the previous day's notes from the whiteboard. 'Jim, you can be our typical P&L-accountable managing director. Let's list the functions you need to understand and cross-integrate in order to do your job properly.

'You have to understand societal trends in terms of saving habits, and macro-economics in terms of what drives interest rates. You need some understanding of human relations—and also industrial relations—and a pretty good grasp of information technology and how it's evolving. You've got to understand the portfolio theory of credit control and the latest advances in marketing and sales force management. You need to be on top of data mining techniques and, finally, you must be financially literate.

'If you add them up, you've got to be skilled in eight or nine different functions, expert in several of them. Your role as managing director involves using experience and judgement to co-ordinate these separate functions in order to arrive at the best overall outcome. By contrast, a Level I salesperson responsible for selling basic products exercises relatively narrow judgement; all they really need to understand is the sales process.'

Andrew handed Jim and Dave an exhibit (shown on next page).

Functions cascade

Senior roles are accountable for understanding, cross-integration and prioritising of more and more functions required to resolve increasingly complex tasks

Level	Role	Areas required to be cross-integrated to achieve accountability	Accountability
V	MD 	Financials, legislation, social trends, corporate relations Competition, sales, new product development, operations, channels, industry structure Technological changes, economic environment, exchange rates, marketing	Long-term shareholder value through superior performance in attractive markets
IV	Marketing General Manager 	Consumer segmentation, profitability, product plans, copy development Competitive environment, sales strategy, route to market Regional planning, resource allocation, sales and promotion, activity plans Partnership planning, executional planning	Developing a favourable and sustainable position in our chosen marketplace
III	Regional Sales Manager 	District plans, promotional plans, activity plans, daily activity and execution	Achieving specific marketplace goals for the region

'What this shows is that complex tasks are essentially multi-functional. Often, however, the functions are in conflict with each other. For instance, you might need to reduce your operating costs but increase customer service at the same time. A Level II or

Level III person might say: "I can give you either lower costs or better customer service, but I can't give you both." A Level IV would say: "I can give you both if you give me time to work it out, but it might take two to three years to fully accomplish significant improvement on both cost and service."

'Multi-functional tasks are, by definition, more complex and take more time than single-function tasks. That's why people with high levels of capability are made accountable for complex, long-term tasks while those with lower levels of capability are made accountable for simpler, short-term tasks.'

'But,' said Dave, 'can't one function, say human resources, be managed at different levels? I mean, the company has an HR manager but HR would also have to be part of the managing director's general strategy for the company.'

'Very astute, Dave,' said Andrew. 'Let's take the human resources function, since that's the one you mentioned. As you said, it can be managed on more than one level. It's important to be able to recognise the difference between levels. We'll take a Level IV role and a Level III role. Remember, someone on Level IV would earn up to $250,000, while a Level III would earn up to $160,000. Tell me, then, what would you expect from an HR manager on, say, $200,000 a year?'

Jim was first to answer. 'I would expect a Level IV person to have significant strategic input into the division,' he said. 'In order to do that, they would have to have a working knowledge but not expertise in most of the other Level IV functions reporting to me. These would include data mining, marketing and IT, and how to use this knowledge to lift productivity in the sales force. A Level IV HR manager would need to have a good grasp of our balance sheet and if you gave them a P&L account, they'd be able to run the ratios and understand trends.

'In their own HR discipline, a Level IV would need to develop and institute an effective performance culture system. I'd also want a Level IV to be able to devise a system of training and development that encompassed the whole division, based upon where we wanted to take the organisation in the next three to five years. As part of that, I would want pro-active, and not reactive, succession and developmental planning. In other words, I'd want that person doing exactly what Dave is doing now.'

Dave rolled his eyes and pretended to yawn.

'You see what I mean about different time spans,' said Andrew. 'Dave is working on short-term projects like finishing parts of the Seven-S analysis next week, but his biggest and most important task is building and institutionalising your overall organisational

capability. That's a three to five year undertaking. If, instead of Dave, you had a Level III manager, you would expect him or her to have some understanding of strategy but not to contribute much to it. A Level III manager would have a limited understanding of financials, data mining, and marketing, but probably no understanding of IT and how to use it strategically to improve performance.

'In one way or another, almost every company will say it has Dave's six performance systems in place. But, in my experience, often they don't really energise or focus the organisation. They represent form without substance. I would diagnose the problem as having human resources functioning at Level III instead of Level IV.

'For Level III HR, you would have training programmes in place, but they wouldn't comprise an integrated training system that would make a major impact on the company's overall organisational capability. They would only be capable of solving recognised problems. The whole thing would be item management rather than total system management.'

'Well,' said Dave, 'that's my job wrapped up. Let's do the same thing with marketing.'

'Okay,' replied Andrew. 'What skills would you expect from a $200,000 person, compared with a $150,000 person?' He turned to Jim. 'You've had your

say, Jim. I think we'll let Dave be boss this time.'

'Suits me,' grinned Dave. 'For starters, I reckon a Level IV marketing executive would be expected to drive the division's strategy, because success would ultimately come from marketing and sales. You'd have to have a Level IV on the case. Either Jim would hire someone at that level, or he'd have to do it himself. I dare say Jim would have the last word on strategy, but he'd need a top-drawer marketing person with strong opinions and creative ideas. Furthermore, that person would need a broad-based knowledge of pricing, credit control and probably the mortgage processing systems.' He turned to Jim. 'How am I going?'

'You've forgotten data mining,' Jim commented dryly.

'I was coming to that,' said Dave. 'The ideal candidate would have a pretty good idea of data mining to be able to use the information in their marketing plan. Broadly, they'd have to be financially competent and know all about product profitability. They would need to understand the sales process, from the initial customer approach to the final mortgage drawdown.'

Andrew waited for him to finish and then looked at Jim. 'Any more?' he asked.

'Well,' said Jim, 'I'd expect a marketing executive

to be on top of consumer segmentation and concept maps and be able to create a new product development system that delivered products quickly. On top of that, they'd be capable of developing systems that accurately monitored share by segment and by region. In the course of working with agencies, they'd create systems to assess copy and concept.' He paused before adding: 'It's a big job.'

'So in your terms,' said Andrew, 'a successful candidate would have to master at least eight functions besides their own. That ties in with what I said about a Level IV manager requiring broad functional competencies. Not as broad as yours, Jim, but still pretty broad. On the other hand, a Level III marketing manager wouldn't be driving strategy and would be a notch down on their understanding of pricing, credit control, data mining and the rest. Of course, a Level III would have a strong understanding of the sales process. In fact, they probably would have come out of sales. But overall a Level III would only be skating over the surface of what was really needed to turn the division around.

'For that reason, they'd have to rely on agencies and bring in consultants to work through consumer trends and segmentation. To get things right, our Level III would have to be dealing with Level IVs from the ad agencies. And as we discussed earlier, a

Level IV would find it difficult to work for a Level III in any scenario. The consultants would be running the show. By putting a Level III in place, you would effectively be dooming the organisation to poor performance. What other problems would a Level III have, Dave?'

Dave thought for a while before answering. 'Being a Level III, they would not be able to manage or even have Level III subordinates, because they couldn't add value to people doing work at the same level. Level IIs are the only option, so there's a corresponding low level of competence across the whole function. A Level IV, however, would have the chance to get a set of really competent Level IIIs reporting to them.'

'Precisely,' said Andrew. 'You see what I mean when I say that the level of your senior managers impacts on everyone further down the organisation. Now let's have a crack at data mining. Go on, Jim. Tell us what you're looking for in a Level IV data mining manager.'

'This is getting easy,' said Jim. 'Every Level IV must know what the other Level IVs are up to. Otherwise they can't deliver value. So he or she would need a basic understanding of every other function in the mortgage division, such as marketing, finance and sales. Specifically, the Level IV in data mining

needs to have a sophisticated grasp of statistics and sampling methods and software development. As a bank, we need to have a thorough knowledge of our customers, especially when they're about to desert us. At the moment we're rolling off mortgages at about 30 per cent a year and that's far too high. It should be 20 per cent at most. The financial impact of moving from 30 per cent to 20 per cent will be huge.

'So I want the data mining manager to know which customers are rolling off and why—and which roll-offs we can control and which we can't. This will be a big analytical task, relying on a lot of help from IT. I want them to be informed about customers who have mortgages with other banks. I want us to back-calculate customers' mortgage payment patterns so that we know when their mortgages are about to expire and can sell into them when they are hot. In short, the data mining general manager must be able to create predictive models of customer behaviour in each of our segments.

'Finally, I want data mining to track home valuations and then to highlight customers and potential customers with enough equity in their homes to allow the purchase of a second home or investment property. That requires a monitoring system that keeps track of roll-off, sales by segment and sub-segment, and—this is more difficult—lost deals by

segment. Lastly, if we get an inquiry and don't consummate it, we must know why.

'The data mining manager will need the capacity to keep staff in marketing and sales up to speed about what's coming out of data mining so that they can use the information. Data mining is an extremely valuable part of our business. It's one of the things that sets us apart from non-bank mortgage providers who don't have access to the information we have.'

Jim glanced at Dave to see if he had anything to add. 'That's how I see a Level IV,' he said. 'Put a Level III in the top data mining position and again we would have a situation where experience and ability would be deficient. Nor would a Level III be able to deal on equal terms with Level IVs accountable for other functions. That in turn would dilute their capability to deliver.'

'I think you've got the hang of it,' said Andrew. 'A key point is that it's all inter-linked. Pick an unsuitable manager for one job and the consequences will ripple through the whole organisation. In the case of the mortgage division, Jim, you are operating at Level V and the division needs to operate at Level V to be competitive. The current staff base is at Level I, so there must be intermediate managerial roles at Levels II, III and IV.

'Of course, if you can get your base up to Level II,

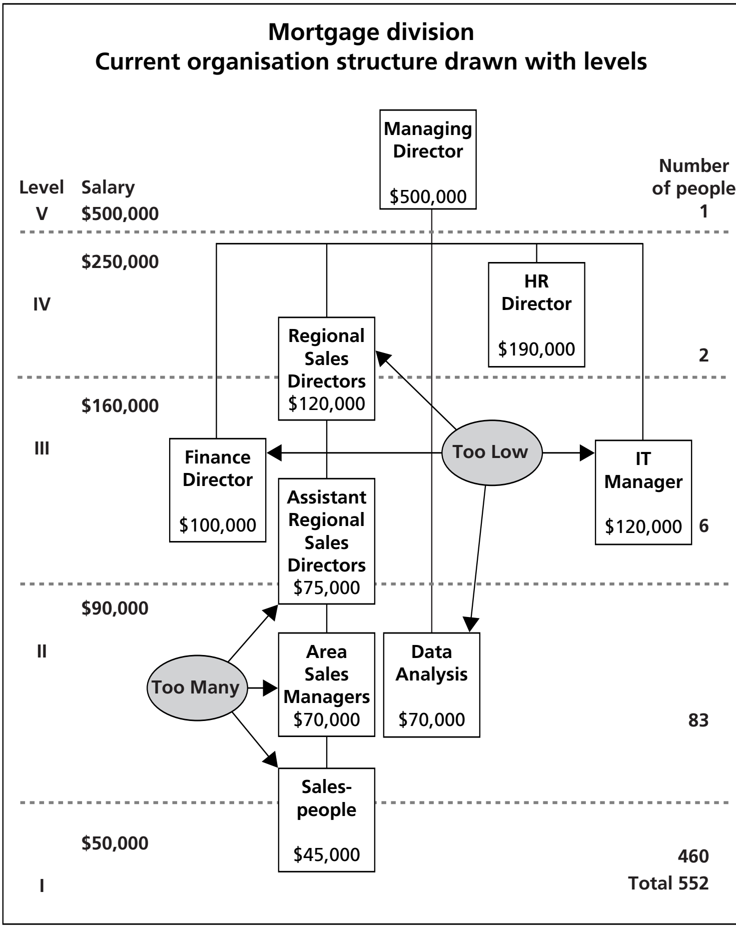
then the first level of management would be at Level III. I expect we'll talk about that later.'

'What you're saying, Andrew, is that I need Level IVs reporting to me across the board. At the moment Dave is the only obvious Level IV. Eric, one of the regional sales directors, definitely has the capacity to be a Level IV, but from what I've seen, the other three regional sales directors are operating at Level III. Only four area sales managers are Level III and the rest are Level II. All my assistant sales managers are probably Level II and when I look at our 500 salespeople, according to Dave, I have roughly 40 performing at Level II and the rest at Level I. The finance director is two levels down on what is needed. My guess is that IT is operating at Level III and data analysis is operating right down on Level II. Judged on the basis of levels theory, it's a nightmare situation.'

'So what are we going to do about it?' asked Andrew. 'Dave, did you find time to draw up that organisational chart?'

Dave glanced at Andrew as if to say, 'you're not the only task-focused guy around here', and took out of his briefcase a chart showing the bank's current organisational structure described in terms of levels theory (shown on next page).

Andrew studied it for a few seconds.



'You can see at once what we've been talking about. The chart indicates the imbalance of having too many or too few levels in the organisation. Of course, Dave's diagram is predicated on having the current Level I sales force. What I suggest is that,

using the same method, you produce a new chart with a Level II sales force as your base.' He glanced at his watch. 'We'll discuss the results tomorrow afternoon.'

Shortly after Jim got back to his office, Jane called with an offer of dinner. 'It'll be nothing special,' she said, 'but I'm itching to hear how you got on with Andrew.'

'Can I bring anything?' he asked.

'Just a bottle,' Jane answered cheerfully. 'Oh, and perhaps some of those levels theory exhibits that Dave told me about.'

'So you've been interrogating Dave, have you?'

Jane detected just a hint of jealousy in his voice. 'Don't worry, Jim,' she said. 'I've got plenty of questions left for you.'

~

Jim stopped and bought a bottle on his way to Jane's place: a Margaret River chardonnay which Sally, his ex-wife, had liked and which he therefore expected all women to like.

Jane opened the door and half considered letting him kiss her on the cheek before thinking better of it and relieving him of the wine. 'Margaret River?' she said. 'Someone has expensive tastes.' She was wearing jeans and a casual white blouse which Jim

couldn't help noticing had not been ironed.

Ushering him into her large, modern and brightly coloured kitchen, she apologised because the meal wasn't ready. Whatever she was cooking smelt delicious—certainly a great deal more appetising than the grilled steak and salad or frozen meals Jim usually had after working late.

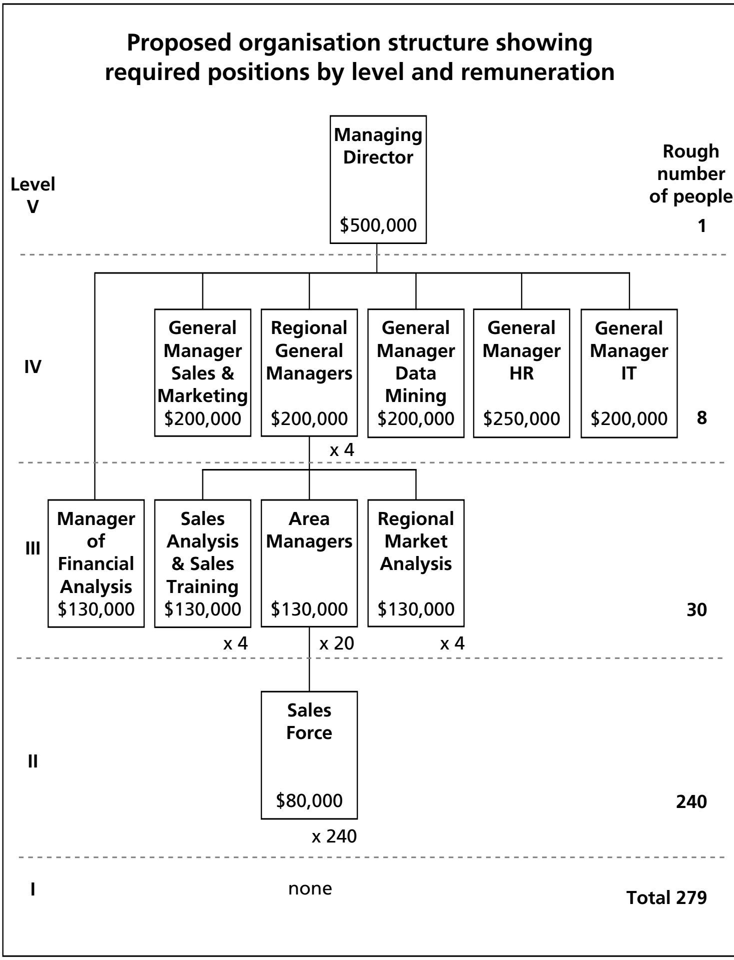
'Poached Atlantic salmon with white wine, lemon and caper sauce,' said Jane, reading his mind. 'Now make yourself useful and open the wine.'

Over dinner, the conversation centred on Andrew's explanation of levels theory, the different breadth of skills required for each level and the impact of having too many levels on costs, speed of decision-making and leadership. By the time the bottle was empty, Jim had confessed a few home truths about his marriage break-up and coaxed some matching revelations out of Jane. Before she shut the door she did let him kiss her on the cheek. It had been a rewarding and informative evening. One day, she thought, as Jim walked to his car, she might even get him to wear those socks.

~

'So Dave,' Jim said when they met the next morning, 'what have we got?'

Dave produced a sheet of paper on which he had



drawn a new organisational chart for the mortgage division (shown above).

'Very impressive,' said Jim. 'It looks as if you were up half the night.'

'I couldn't sleep,' replied Dave. 'It was a good way of passing the time.'

Jim wasn't fooled for a moment by Dave's nonchalance. He knew how much effort had gone into thinking about the chart and role descriptions and appreciated it. He spent a few moments studying the divisional structure as Dave had drawn it, with eight general managers reporting directly to Jim as managing director.

'Excellent, Dave. We badly needed some consistency in these job titles. But eight Level IV general managers at $200,000 a pop makes a pretty expensive top line.'

'That's what we will need to pull off the strategy,' replied Dave. 'However, I wasn't convinced about the need for a GM in finance. We don't run our own balance sheet, and the bank itself determines our cost of funds. I think a Level III would do, although I'm not sure who they should report to.'

'You're probably right,' said Jim. 'It would break one of Jaques' rules, but I reckon we could live with it. I know Andrew allows for some flexibility, as long as we acknowledge the consequences.'

'Here's another thing you will notice,' said Dave. 'If you're going to have high-powered Level IV regional general managers, they will need senior staff to support them. It's no good having a series of one-

man bands. Each region has quite different consumer segmentation, so they'll need staff capable of supporting them. To be fully self-reliant, they will need a sales analyst and training manager at Level III, and a market analyst at the same level. You can see that I have lifted the sales force up to Level II. Now before you ask me how we're going to achieve it I've drawn up a comparative table showing the key differences between a Level I and a Level II sales force.'

'I thought you might,' said Jim, slapping him on the shoulder. Dave gave him a few minutes to pore over the table (shown on page 104).

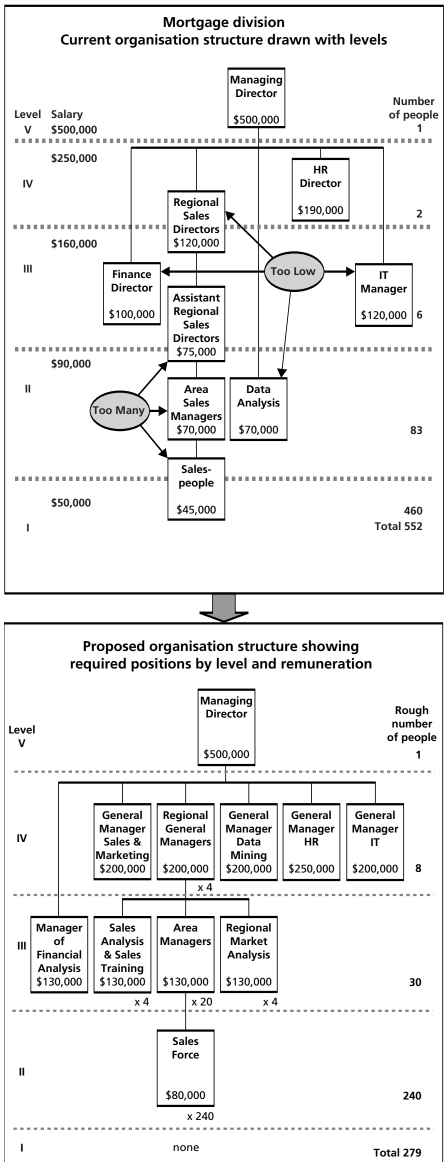
'The Kookaburra Loans sales force sell between six and eight mortgages a week,' said Dave. 'If we're going to match them we'll need a base of about 240 salespeople. I suspect an effective ratio of area managers to salespeople is about 12 to one—if all the salespeople are Level II. That means we need 20 area managers at Level III and four regional general managers at Level IV, giving them a five to one span.'

Jim compared the new chart with the old one (both shown on page 105). 'They are very different,' he said. 'We'll need to work out the relative costs—unless, of course, you've already done it.'

Dave walked over to the whiteboard and picked up a marker. 'I've worked out some rough figures,' he said. 'Currently we have about 550 people in the

Differences between a Level I and II salesperson

	Level I salesperson	Level II salesperson
Location	• In the branch most of the time 9–5 p.m.	• Mostly out of the branch with leads or clients 10 a.m.–8 p.m.
Customer acquisition	• Those who walk through the door • Leads directed from tellers to head office • Head office arranged relationships to real estate agents	**Same as Level I but Level II will develop own leads system as well from:** • Local clubs and societies • Own past portfolio of loans • Specially developed relationships with gatekeepers like phone operators and individual real estate agents • Regularly calling up owners of properties advertised for sale
Skill base i.e. number of functions	• Good knowledge of products on offer • Some basic sales skills • Good knowledge of all standard documents required	**Same as Level I but Level II will also have skills involving:** • Taxation implications of loan • How credit is assessed and how to present best financial situation • How to document and rearrange personal balance sheet and income to best cover the loan • Other competitive offerings, their relative pros and cons • Real estate market, its drivers and seasonality
Time span	• The completion of the last mortgage (0–3 months)	• The realisation of a high proportion of hot prospects over a 6–9 month period or longer
Outcomes	• Maximum 2–3 deals a week with average deal value of $90,000	• 5–7 deals a week depending on seasonality; average value 10–20% higher than average of a Level I
Compensation	• $40,000 p.a. plus small bonus per mortgage	• $40,000 base plus car allowance plus performance bonus that lifts package to over $80,000



(See pages 98 and 101 for full-size versions.)

division and our salaries are about $33 million—an average of $68,000 a head. Our Level I salespeople account for $23 million of that figure.

'If we go ahead with these changes, we will be increasing the number of Level IVs by seven and the number of Level IIIs by 20. There will also be a big rise in the number of Level IIs. But we will have eliminated Level I and reduced the overall staff numbers by about 280. The average salary will rise to about $100,000, but our total salaries and overheads will have been lowered to about $25 million. That means a saving of six million dollars. But more important than the cost saving is the massive shift in brainpower that is being applied to the division. With this team we can beat anybody. It's like moving from second grade to the Wallabies.'

~

Jim showed Andrew the charts and the remuneration figures when they met that afternoon in Jim's office (shown on facing page).

'You've made a big impact on the salary bill,' said Andrew, 'and that should make a convincing argument when you present your plans to Mike, but the real impact will be in performance, not in cost cutting.'

'I know he won't like it,' replied Jim. 'He'll go

Change in positions and total salary bill for old and proposed structures

Level		Old		Proposed		Change
	Average package $'000	*Numbers*	*Total salary by level $'000*	*Numbers*	*Total salary by level $'000*	*$'000*
V	500	1	500	1	500	Same
IV	200	1	200	8	1,600	+ 1,400
III	130	8	1,040	30	3,900	+ 2,860
II	80	80	6,400	240	19,200	+ 12,800
I	50	460	23,000	—	—	– 22,000
		550	$31,140	279	$25,200	– $5,940

berserk when he sees we're planning to retrench several hundred salespeople, hire seven new Level IVs at $200,000 and 20 new people at Level III. I'm damned if I know how to sell it, especially on the basis of a theory. You've got truckloads of experience at dealing with chief executives. What's your advice?'

'I suggest you stress the business case,' said Andrew. 'You are accountable for doubling your profit, and this is the way you plan to do it. You should emphasise as politely as possible that the division has lost six share points and the current organisational structure gives a pretty good idea why.'

Jim nodded. Andrew had just presented the clearest and most comprehensible case for organisational

restructuring that he had ever heard. He suspected they had a lot more to gain from having him around.

'You've been a great help,' he said. 'Across the world, managers have been de-layering to increase competitiveness. Now I can see why.'

'This is just the start,' said Andrew. 'Besides enabling you to structure your organisation properly, levels theory will help you establish a strategy of competitiveness based on competence. It will also have an impact on leadership systems and even style. I understand you're putting together a "from what—to what" Seven-S analysis and I'd be interested to see how it comes out.' He opened his briefcase and took out an 'old world/new world' diagram (shown on pages 109-110) indicating how corporate organisation had changed since the 1960s. 'Have a look at this,' he said. 'It might help you think about your Seven-S analysis.'

Jim glanced at it quickly. 'It certainly will,' he said.

Old world/new world

Major changes in organisation have taken place over four decades

1 **Levels of management** have been reduced, together with:

2 **The size of business units**—for two reasons. First, levels have been reduced to reflect the real value-adding capacity of each level in the hierarchy. Too many levels prevents performance orientation, leadership and team behaviours, and is high cost. Second, units have been reduced in size to allow more raw intellect to be applied to a smaller arena. In simple terms, a 1000-person business unit led by an MD will have half the intellectual grunt of the same business unit divided into two businesses and run by two separately accountable MDs.

3 **Work performed at the base** now has a higher level of intellectual content. Control through the standard measure of individual output no longer works and is no longer necessary; teamwork is required. As teamwork is more difficult to measure on an individual basis, leadership and membership behaviours are required. Higher capacity employees won't work in the old command and control systems; they leave. As a result, realisation of work objectives is achieved much more through standardisation of process and share objectives, not the old method of imposed objectives and measurement of physical outputs.

4 The **role of staff** has changed as the average intellectual competence of employees has changed. Work which used to be standardised, routine and measured in physical units lent itself to large staff functions whose job was to 'measure and control'. Now higher staff functions' role is improvement.

5 The **explosion of sub-contract** has occurred in two areas: services and production work. In services, it has been realised that some functions such as information technology, the canteen and payroll, even production, may add nothing to the capability of the business to compete. Furthermore, there are now enough competent service providers to allow companies to sub-contract out with confidence in results. In the case of low level production work, it has been realised that it is often more effective to contract out work to low cost Asia, rather than provide the work to high cost and often difficult to manage local labour.

6 The **metrics of business** have also changed from P&L, or earnings per share, to economic value-adding and balanced scorecard. The latter two are higher levels of conceptualisation of the question 'How do I measure success?'.

7 In simple terms, **the outcome of these shifts** is that high cost, low value products and service have given way to lower cost higher value outcomes, produced by higher capacity people.

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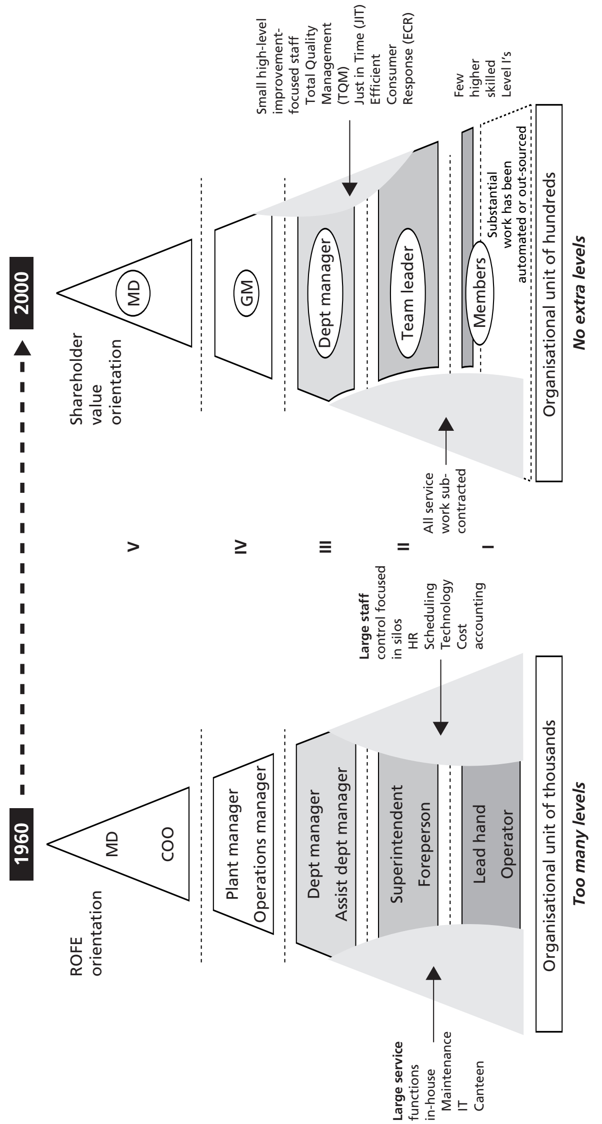

1960
2000
ROFE orientation
MD
COO
Plant manager
Operations manager
Dept manager
Assist dept manager
Superintendent
Foreperson
Lead hand
Operator
Large service functions in-house
Maintenance
IT
Canteen
Large staff control focused in silos
HR
Scheduling
Technology
Cost accounting
Organisational unit of thousands
Too many levels
V
IV
III
II
I
Shareholder value orientation
MD
GM
Dept manager
Team leader
Members
Small high-level improvement-focused staff
Total Quality Management (TQM)
Just in Time (JIT)
Efficient Consumer Response (ECR)
Few higher skilled Level I's
Substantial work has been automated or out-sourced
All service work sub-contracted
Organisational unit of hundreds
No extra levels

Chapter Seven

Putting theory into practice

Eric studied the proposed new organisational chart for what seemed like an age before speaking. He was concerned by what he had just heard and the new chart was exactly what he didn't want to see. He was sitting in an office with Jim and Dave, who had just brought him up to date on their meetings with Andrew. Jim had announced that he was planning a major restructure of the division and was asking Eric what he thought.

Not much, was the answer. Now in his early 40s, Eric had been with the bank for 15 years. He had started in computer technology, which then became

IT, and moved into the mortgage division six years ago. Eric had a reputation for being dogged but reliable. Behind his back, and sometimes to his face, colleagues affectionately called him 'the bulldog'.

Eric enjoyed his job as a regional director and knew most of the salespeople by their first names. He was happily married but had no children. His main hobby was fishing and he belonged to the local anglers' club where, as he liked to boast at Christmas parties, he held a couple of catch records.

While Eric understood the overall concept and saw some merit in moving the sales force up a level, he envisaged plenty of trouble putting the theory into practice. For a start, he reckoned they would have trouble finding out who among the salespeople was capable of operating at Level II. Like Mike, he was also worried by the idea of retrenching more than half the sales force. He believed that each one of them was doing their best for the bank, even if their figures fell a bit short of what he would have liked.

Eric also identified another, more fundamental problem. He doubted the mortgage processing system as it existed now could cope with such a dramatic improvement in the performance of the sales force.

'If you look at our current situation,' he said, 'each salesperson is handling two or three consummated mortgages a week. At a hit rate of about 50 per cent,

that means the average salesperson, in one way or another, refers from four to six mortgages a week for processing. At the moment it takes six weeks to process a mortgage from start to finish. Add up those figures and at any given time a salesperson will have as many as 30 to 40 files on their desk. And they can get phone calls from anyone involved in processing them—from customers right through to credit control.

'If the sales force is going to move up to Level II, and productivity reaches your target of eight sales a week, each person is going to have as many as 100 files on their desk.' He paused to consider Jim's reaction. 'I reckon the boost in sales figures is probably achievable, but the salespeople will be swamped by paperwork. Either they're going to need assistants, or we'll have to get a more efficient processing system.'

Jim nodded. 'I see what you're saying, Eric, and I've been giving it plenty of thought. If we go about it the right way I believe we can crack it. We'll attack the problem on a number of fronts. First, let's cut the consummation period down drastically. Six weeks is far too long and the clients hate it.'

'Easier said than done,' said Eric. 'We've tried before but it never seems to get any quicker.'

'Okay,' said Jim. 'How much time is actually spent processing a mortgage? If you started right now, if you

had responsibility for the whole thing, sitting at your desk and not having to wait for your mortgage to get through the queues at each processing point and level of authority, how long would it take?'

'Well, assuming the data was available,' replied Eric, 'which isn't always the case, it would take only five or six hours.'

Jim had already been through it, from step one to completion, and come up with the same answer. The mortgage processing system as it was now reminded him of the manufacturing industry before 'just in time' production scheduling methods were introduced. The car industry was a prime example. It used to take six to eight weeks to assemble a car. With 'just in time' deliveries (fewer processes and no inventory), manufacturing time was now measured in hours.

'My estimate was eight,' Jim said disingenuously. 'Six sounds much better. But if we're going to reduce the time taken to process a mortgage, we'll have to eliminate paperwork and create a digital network. To coin a Microsoft phrase, we'll need a "digital nervous system". If it's really going to succeed, we'll also need our customers to put more work into the process and be more accurate in their input.

'So, all up, we've got to hit this from three angles. First, we reduce the processing queue time; second,

we digitise everything so that the whole process becomes transparent and accessible to all participants; and third, wherever we can, we establish a system of self-service.'

Eric nodded, although he still wasn't convinced. Jim was not the first boss he'd worked for who took a look around and promised to turn everything on its head. Most ended up floundering in the mess, then walked away, leaving people like him to clean up. But Jim, he had to admit, had thought hard about how matters stood before proposing a change.

'I'll tell you something, Eric,' Jim said reassuringly. 'With improved systems in place, I bet we'll find we have more salespeople capable of working at Level II than we thought.'

Dave, who had remained silent to this point, now said: 'How do we actually assess whether someone is capable of Level I or Level II work?'

'To tell you the truth,' said Jim, 'I'm not sure of the answer. In fact, it's one of the questions I'm going to ask Andrew. Obviously it's crucial to the whole process, and it's a question that Mike is bound to ask. In the meantime, I'd like you, Eric, to get stuck into the legacy mortgage processing system and suggest how we can streamline it. Dave, I want you to write up a full divisional Seven-S analysis: "from what—to what". I also want you to incorporate the business

case: “to achieve what”. It’s the business case that provides the whole rationale. Without it, this is just an academic exercise.’

‘I could probably use a good IT consultant,’ said Eric.

‘Go for it,’ said Jim. ‘Pull in anyone you think will help us get the job done. I want you to go outside the company to look at any systems similar to ours. Consider anything at all that will help us crack the document log-jam. We have to get our base up to Level II. If we can achieve that, everything else will follow. Eric, I’d like you to report back in 10 days. Dave, it shouldn’t take you more than a week to knock over the divisional Seven-S. The three of us can meet in a fortnight to chew over the results. In the meantime, I’ll talk to Andrew.’

~

The following Tuesday Jim visited Andrew at his office in the city. Shaking hands warmly, they talked briefly about the Eagles’ forthcoming game against their main rivals, the Rams.

‘By the way,’ said Jim, ‘I’ve invited Jane to the game.’

‘I didn’t know she was a rugby fan,’ Andrew said skeptically.

‘She’s not,’ said Jim. ‘She says she hates it. But I

told her you'd be there and she said she'd grin and bear it. The game, that is—she's dying to meet you.'

'I wouldn't be sensing any ulterior motives here, would I?' asked Andrew.

'If you mean, do I think you can convince Jane of the value of levels theory, the answer is yes. Jane's really big on teamwork but doesn't have much time for levels and individual accountability. If she put them both together, I think something really powerful might emerge.'

'That wasn't exactly what I meant,' Andrew said with a smile, 'but I'll see what I can do.'

Jim ignored—or perhaps didn't notice—the implications of Andrew's remark. 'Anyway,' he said, 'that's not really what I wanted to talk to you about now. There is a lot of talk in the bank about getting rid of command and control. The vogue is for self-managing groups and teamwork; realising the greatest potential in every individual. Yet your description of a manager seems to go against all that. It sounds like command and control. I'd like to know how you reconcile the two.

'Second, I'd like to hear your thoughts on the self-managed teams that Jane keeps pushing. And third, I'd like to know how we go about identifying a person's level. If we're going to reorganise the business on the basis of levels theory, we're going to

need some kind of objective measurement to define where each of us stands.'

'Alright,' said Andrew. 'Let's address the first point. The fashion today is for teamwork in which team members have shared values and shared vision and work to the best of their abilities with little managerial input. The notion that a manager is somebody accountable for someone else's work might seem to go against that. The tension comes from having blurred the concepts of formal work relationships and informal personal relationships.

'Most people understand that their primary relationship with work is defined by an employment contract. In its strictest form, the employment contract is about being employed as an individual to do a specific job, and when that job is finished, so is the contract. What is wanted is output. There is no personal relationship.

'Contracts originated in the middle ages to enable people to have relationships with strangers. Before that, they didn't trade with strangers. They only traded with people they knew, people whose behaviour was controlled by their shared community. You can't cheat if both of you have to face each other in the village and your community the next day.

'Harsh as it sounds, contract is the underlying basis of all employment. The reason is straight-

forward: when things go wrong, it's not the team that gets fired; it's the individuals who are underperforming. Furthermore, if a corporation gets into trouble, it's not going to celebrate the employment contract as a loving, long-term relationship with shared values. It's going to say: "Sorry, everyone, we are not making any money. We're going to have to retrench and lay off thousands of people."

'During the late 1980s and 1990s, nearly everyone has been exposed to retrenchments, either directly or through friends. So "contract" is the reality for all employment relationships and everybody knows it. This is the basis of "accountability". However, there is a tricky balance between this and the cultivation of conditions that inspire us to want to freely co-operate at work.

'Nearly everybody now recognises that a workplace functions better by suspending the underlying reality of the contract so that each employee does his or her best from an individual, team and perhaps even a corporate perspective.

'The upshot is that we have two kinds of relationship going on. Fundamentally everybody knows the underpinning of the relationship is the employment contract—a contract between strangers. You recognised this, Jim, when you negotiated with Mike. But next to this is the personal relationship in which

manager and team members hope to work with a sense of involvement, trust and respect. The two co-exist but they can be antagonistic. This is the unstated tension and confusion that exists in many "modern" organisations. Ask former IBM staff about their feelings of misplaced trust and what they think of IBM after it responded to a changing marketplace by sacking thousands of employees.

'It is my absolute belief that if you don't understand this tension, then the basis upon which you organise large work institutions is completely flawed. The basis for large work institutions must always be the dispersal of power through a managerial hierarchy, where managers are held accountable for the work of their subordinates, whether they are in a team or not. Ignore that, Jim, and we're in cloud cuckoo land. Now, the second point . . .'

'Self-managed teams,' Jim reminded him.

'That's right. The world is full of apparently self-managing or self-organising groups, or teams, and in many cases they operate effectively. So if I'm going to convince you of the need for hierarchical management, I'll have to reconcile my definition of a "manager" with the performance of seemingly non-managed teams.

'Let me introduce you to another concept, which I call "managerial leadership and team membership",

and use this to examine the relationship between a "managerial leader" and a team.

'A team may appear to be self-managing, but by a number of critical criteria, it isn't. First, let's look at it from a managerial leadership point of view.' Andrew stood up and walked to the whiteboard on his office wall. 'Generically speaking, a managerial leader does eight things:

1. They explain the purpose of the team and set its goals and objectives.
2. They identify critical issues around achieving those goals.
3. They seek contributions from team members on how to achieve the goals.
4. They honour those contributions when making decisions on how to proceed.
5. They assign tasks to individuals.
6. They monitor performance during execution of those tasks.
7. They observe the execution of tasks and coach individuals who are not up to scratch.
8. They provide review and feedback for individual team members.

'The confusions over self-management come about when the team takes on some of these activities itself.

This can happen where the team is extremely experienced and the task is very clearly defined. But even in these cases, the leader takes on critical roles that the most experienced team can't. Let's look at that list again activity by activity.

'The leader will still have to explain the purpose and set the objectives of the team in terms of quantity, quality, resources and time. As for identifying critical issues, a very experienced team might identify most of these by itself. A less experienced team will rely on the managerial leader.

'In terms of seeking contributions, an experienced team might contribute a lot without being asked. Even so, the managerial leader will probably have to make decisions about the best way to go forward, because teams of peers often become deadlocked in trying to agree on the best course of action.

'As for task assignment, once the route forward has been decided, an experienced team will divide tasks among its members without the need for a manager. Experienced teams generally take into account the relative skills of each member. However, with a less skilled team, or where individuals need special support, the managerial leader will again have to step in to assign tasks.

'The managerial leader still has to assume the monitoring role to ensure that the project is on track

and objectives are being met, and in most cases the leader will still be accountable for coaching and development, unless the team is extraordinarily skilled.

‘Finally, the managerial leader will still have to provide feedback and review, especially for people who are not on top of all aspects of the multi-skilled task they are doing.

‘In summary, I believe teams can appear to be self-organising if the task is very well defined and the team is highly competent at what it is doing. But if you analyse their performance against the accountabilities of leadership, you’ll generally find that the managerial leader is still leading and that he or she is still operating at one level above the level of the team. Without this, as I’ve said before, the managerial leader doesn’t add value and is therefore illegitimate. If you have a Level II team, you need a Level III manager. Furthermore, in situations where you don’t have highly experienced people in the team, then self-management, even in a limited form, is a recipe for disaster. We’ve all seen it happen.

‘So yes, Jim, I agree that the trend is away from a rigid system of command and control and towards what I call “managerial leadership”. But while this may have some effect on the way employees go about their jobs, it requires pre-conditions that don’t

always apply. The basic premise must always be that a manager is accountable and has to be one level of capability above his or her subordinates, even if the subordinates are assembled in a team.

'While we're on this subject, it's important to note that for teams to operate successfully, they need to demonstrate membership behaviours corresponding to each of the eight leadership criteria. In other words, a team has its own dynamics, not just internally but in relation to the managerial leader. Team members should be accountable for team behaviours, just as leaders are accountable for leadership behaviours. This is very different from an employment contract where individuals are held accountable for outputs, widgets or dollars. In an "employment relationship", as I have defined it, people are held accountable for leadership and membership behaviours as well as outputs.' Andrew stopped and tapped his fingers thoughtfully on the desk.

'You know, Jim, I might have a handout that summarises this. Now let me think . . .' He walked over to his well-organised shelves and picked out a thick black folder. After thumbing through it for a couple of minutes, he found what he was looking for, and handed a page to Jim (shown on facing page). 'This should do the trick.'

Parts of Andrew's reasoning were familiar to Jim

The concepts of managerial* leadership and membership

To allow for leadership to take place, organisations need to have requisite levels. Without this, leadership will be illegitimate or ineffective. Effective leadership also requires a concept of accountability for leadership and team behaviours. These behaviours must be explicitly taught and may or may not become shared values. Values are hard to change, behaviours more easily changed. Accountability for behaviours will be built into the performance review system and training systems.

A managerial leader has the following leadership accountabilities:		**A team member has reciprocal membership accountability:**
1. Explain the purpose of the team and set the goals and objectives of the team	↔	Understand the purpose of the team
2. Identify critical issues around those goals	↔	Contribute to the identification of critical issues
3. Seek contributions from team members in how to achieve those goals and to heed those contributions	↔	Come up with contributions
4. Honour contributions, but make decisions on the way forward	↔	Accept decisions as to the way forward
5. Assign tasks to individuals	↔	Understand tasks assigned
6. Monitor performance during the execution of tasks	↔	Monitor own performance
7. Observe the execution of tasks, to teach and coach individuals who are not up to true performance	↔	Accept and learn from coaching
8. Provide review and feedback for individual team members	↔	Accept and learn from feedback 90° or 360°

from his parallel conversations with Jane. What Andrew had done was formalise Jane's approach. He had insisted that a manager be more capable than his or her team and he held both managerial leaders and members not just responsible but accountable for team behaviours. Jane's bias towards the flexible role of team members and leadership clouded her argument. She certainly didn't share Andrew's conviction about the importance of managerial leadership and accountability. Jim was now more convinced than ever that Jane's division would race ahead if her skill at creating a strong team spirit could be combined with Andrew's knowledge of levels theory. She should formalise the accountabilities required of managerial leadership and membership together with the one-level-above rule. She had proved her ability to inspire and lead people. But that didn't mean that all her team leaders were as capable of leading their teams as she led hers.

'I'd love you to have a go at talking Jane round,' said Jim. 'I don't think she'll buy it from me.'

'I can try,' replied Andrew.

'You know,' said Jim, 'I think one of the problems is that she's suspicious of the idea of categorising individuals by level. I haven't really grasped the mechanics of it myself.'

'There are three or four ways to approach the subject,' said Andrew. 'One is that you can do what

we did earlier by outlining level by level role descriptions and identifying which level best suits a particular individual. You could then make the judgement yourself or ask the person which role they would be most comfortable in. In my experience people have an intuitive understanding of their own capabilities and won't take on work they can't do when they know they are going to be held accountable.

'Tiered role descriptions will generally reveal whether or not a person fits a particular level. Another way of cross-checking is to seek the opinion of what I call their manager-once-removed, namely the manager one level above the level of their current manager. This is important because the manager once removed will often have a clearer idea of an employee's current and potential capacity than the direct manager because they have a direct understanding of what is required to perform two levels above the subordinate's current role.

'Alternatively, Elliott Jaques has a number of formal tests which he uses to ascertain people's levels. They are quite accurate, but at the end of the day it must be the manager's accountability, not that of an HR specialist.

'The last way of testing is to look at what people are being paid and what their pay gradients have been over their careers. I made the point in our earlier

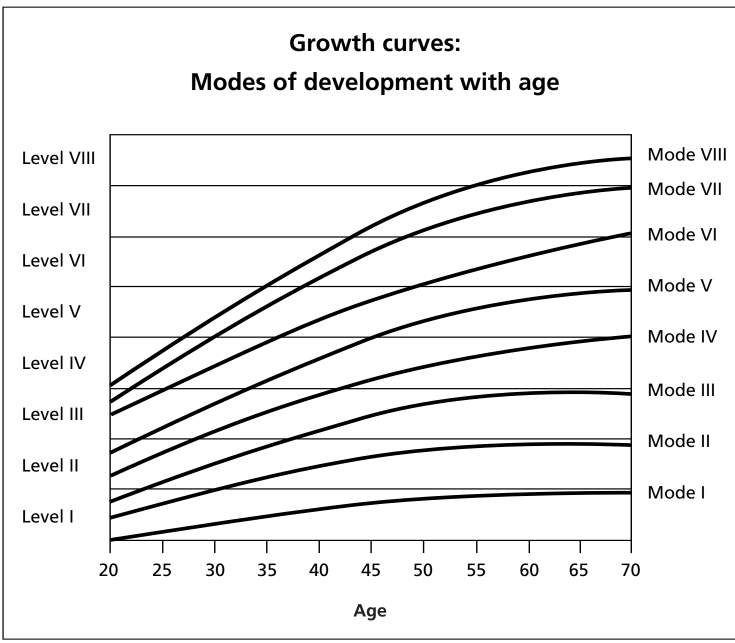
discussions that pay was a fairly accurate measure of capability. Generally, we don't pay people much more or much less than they are actually worth. So, if you track a person's pay history, you'll track their levels development. The simple question to ask of a Level III aspirant would be: "Am I comfortable with paying this person $100,000 plus per annum?" If the answer is "no", they are probably not Level III.

'My experience in levels restructuring, shifting the level of a whole function or division, is that you can break the existing incumbents down into thirds. By that I mean one-third of people are being totally underutilised and can shift levels—they'll even ask why you didn't make the change years ago; another third, with the proper development opportunities and training, can realise a capacity which the business didn't previously call upon; and the last third usually fall by the wayside.'

'Fair enough,' said Jim. 'But what about age? Obviously I wasn't born a Level V—surely I had to develop to my present level?'

'Jaques' work over 40 years has highlighted some interesting development curves,' replied Andrew. 'Some people might find these offensive because they imply capability is at least in part genetically determined, but research tends to bear them out. His studies suggest people are born with an inherent

capability and, if they are given sufficient life opportunities to express it, they will follow a consistent development pattern.' He rummaged through the black folder again, pulling out a chart (shown below). 'If you look at this, you'll see how people evolve over time.'



'Alright,' said Jim. 'I'm now 34 and a Level V. But according to the chart, I'm a Mode VII and before I retire, if I gain enough skills and experience and am given the right opportunities, I should become a Level VII.'

'You occupy a senior position at a very young age,' Andrew observed dryly. 'Barring unforeseen catastrophes you should have a bright future and ought to make Level VI by 45.'

'Are you sure you're not an astrologer?' asked Jim.

Andrew smiled.

'Seriously, though,' said Jim, 'this chart gives a whole new dimension to succession planning.'

'It's better than reading tea leaves,' said Andrew.

Chapter Eight

Developing the business case

While Jim was talking to Andrew, Dave and Eric met in Dave's office to discuss their 'from what—to what' analysis of the mortgage processing system. Eric had overcome his initial skepticism and had laid into the task with gusto.

'Processing a mortgage,' he told Dave, 'is really no different to delivering a parcel. You send a parcel from Sydney to, say, a suburb of Lexington, in the United States. It passes through a number of check points, including customs, and several airports before reaching the regional distribution centre for delivery to the addressee in Lexington. With a company like

Federal Express the whole process is digital, so there's no complex paper trail. A client can directly check the status of the parcel at any point of the process—its location, when it will get to the next gate and when it will finally be delivered. Mortgage processing should be much the same—a game of pass the parcel.'

'Sounds logical so far,' said Dave. 'Take me through it.'

Eric got up, as if he intended to enact the whole process in person. 'To start with,' he said, 'a salesperson gets a customer's details and asks for some documentation. The documentation is sent to document checkers who, after verifying it, send it back to the salesperson. The documentation is then sent to credit control for review. Next it is sent to the legal department, which checks all the legals, whether title exists and so on.

'Then the documentation is sent over to approvals where, once credit has been approved, an official letter is drafted stipulating when the money is available to be drawn down. The file is then sent to the client's solicitors where it's checked again before the mortgage is finally closed, the house settled and the money drawn down.'

'And as things stand,' said Dave, 'there are at least eight steps and gates and the whole process is mired in paperwork. It's impossible to discover what gate a

mortgage is at without making half a dozen phone calls.'

'Precisely,' said Eric. 'So what we need is a digital system similar to that of Federal Express, with the same level of transparency and standards of performance for each person working at each gate. We should be able to track a bar-coded mortgage just as we would a parcel and ensure that we always meet set standards of processing efficiency at each gate.'

'And since nobody could find you last Friday, I presume you took the opportunity to visit the local office of Federal Express to see how it was done.'

'I certainly did,' said Eric. 'I went to Federal Express and to their software provider, Microsoft, and they talked me through the whole process. They put me onto a number of other companies using similar systems, including a supermarket chain using ECR, or Efficient Consumer Response. I spoke to our IT guys yesterday and they're pretty excited about the prospect of developing our own system. What I've prepared is a schematic contrasting the features of the old system against those of the new. Here's a copy for you.' (Shown on next page.)

'Essentially,' Eric continued as Dave started reading, 'it entails moving from a paper-based system to a digital system, with a single storage warehouse that carries one file for each mortgage. Access to the

Characteristics of the new digital operational system for mortgage processing

	FROM WHAT		TO WHAT	
Form	Paper based		Digitally based; all documents scanned on receipt	
Storage	Mobile file		Single server	
Accessibility	Driven by who has the file at the moment		Accessed by anyone authorised, including the customer	
Traceability	Several phone calls		Instant on the web	
Accountability	Very hard to pin down		Totally transparent to all users gate by gate	
Interfaces				
External	Phone and courier		Intranet and internet for internal and external interfaces	
Internal	Phone and internal mail			
Outcomes	Process time	60 hours	Process time	6 hours
	Elapsed time	6 weeks	Elapsed time	4 days
	Standard deviation of elapsed time	2 weeks	Standard deviation of elapsed time	4 hours
	Error rate	10%	Error rate	1–2%
	Cost	$280	Cost	$50
	Time to change a form	6–9 months	Time to change a form	2 weeks
	Time to change a procedure	6–9 months	Time to change a procedure	2 weeks

file will be open to all participants instantaneously. Traceability will be greatly enhanced. It will be possible for everyone involved to monitor all stages in the process, so if a client phones up on day three to ask where her mortgage is, we can tell her instantly or, even better, the client herself can follow its progress on the internet.

‘By my estimation, outcomes will improve dramatically, cutting the processing and queue time of 60 hours to six hours. Elapsed time will move from six weeks to less than 10 days and error rates, now at about 10 per cent, should fall to one or two per cent, depending on how comprehensively we can digitise the customer’s input through scanning. The other benefits will be a sharp cost reduction and the ability to incorporate further improvements in the system much more easily than with a paper-based system.

‘For instance, if a form needs modifying, it takes six to nine months under the existing system. We can do that with digital forms in less than two weeks. Similarly, the time currently taken to change a procedure is six to nine months, and we should be able to do that in two weeks. The processing cost should fall from about $280 per mortgage to $50—that alone represents a saving of about $10 million a year.’

‘Bloody hell,’ said Dave. ‘And I thought you spent the weekend fishing.’

'I throw most of them back anyway,' said Eric, perching his heavy frame on the corner of the desk. 'But you see what I'm getting at, don't you, Dave? I'm convinced now that Jim is right, and with better systems we'll be able to shift the sales force from Level I to Level II. I think we're going to find we have a lot more Level II capacity employees than we thought. At the moment, based on their current performance, you reckon we have only about 40 Level IIs. My guess is that when we give them this system to work with, we'll have at least 150 Level IIs. A lot of them have just been bogged down by paperwork. This will be like moving from an old Ford to a Porsche!'

'When we slap this on Mike's desk his eyes will pop out of his head,' said Dave, looking up excitedly from Eric's chart. 'I've completed the full Seven-S analysis and broken Systems down into human resource systems and operating systems. There are probably 10 key operating systems but this mortgage processing system will show Mike what we're going to have to do across the board.'

'I don't know about you,' said Eric, 'but I could murder a beer.'

'Come on then,' said Dave, dropping the chart into his briefcase and snapping the locks shut. 'I reckon you've earned it.'

~

The following week Dave and Eric met Jim in his office to review the Seven-S analysis. Dave handed out a couple of charts (shown below). The first outlined the business case. The second was a detailed 'from what—to what' summary. The business case looked straightforward, showing productivity and earnings more than doubled under the new system.

'Well done, Dave,' said Jim after he'd read the charts. 'I can't see Mike turning his back on this business case, but the tricky part here is explaining the Seven-S. Superordinate Goal looks fine. Mike shouldn't have any problems with that. Structure is probably going to need some explanation, but I think it all stands up if you understand the concepts. Staff and Skills are a bit ambitious, but manageable. Performance Systems is pretty critical of central HR, but

Business case

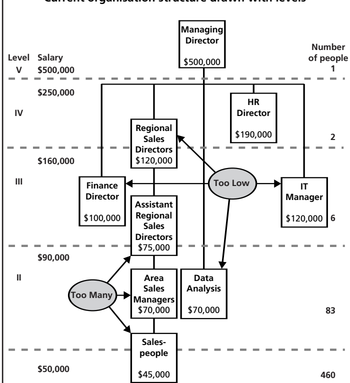
FROM WHAT		TO WHAT	
Market share losses of approximately two share points a year for the past three years to 14%.		Share gains of 1½ points a year for three years to 18%.	
Total book	$28 billion	Total book	$36+ billion
Interest margin	.8%	Interest margin	.9%
Cost	$144 million	Cost	$134 million
Profit	$80 million	Profit	$190 million
Sales force productivity p.a.	125 loan	Sales force productivity p.a.	350 loans

From what—to what summary

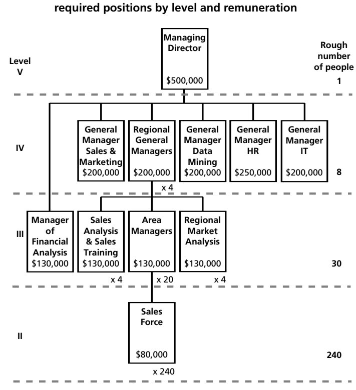
FROM WHAT	TO WHAT
Superordinate Goal	
• Meet the needs of customers as required	• Compete vigorously in the mortgage market, creating a profitable business while being a cornerstone of the bank's client relationship
Strategy	
• High margin protected product used to cross-subsidise branch structure	• A business that must be profitable in its own right
• Respond to demand	• Drive sales through product development, market and sales segmentation, aggressive sales and data mining
• Accept roll-off	• Manage roll-off in a pre-emptive fashion
• Confused accountability on costs	• Costs to be moved while volume grown

Structure (see full-size versions on pages 98 and 101)

Mortgage division
Current organisation structure drawn with levels



Proposed organisation structure showing
required positions by level and remuneration



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FROM WHAT		TO WHAT	
• Low level reports into MD		• High level reports into MD	
• Too many levels		• Requisite levels in sales stream	
• Little staff support in sales stream		• Full staff support at regional manager level	
• Level I sales force	460	• Level II sales force	240
• Total wage bill	$31.14M	• Total wage bill	$25.2M
• Average salary	$59,700	• Average salary	$89,960
• Cost per mortgage	$500	• Cost per mortgage	$400
Staff			
Low level staff used to: • Write policy and procedure • Cross-check • Monitor • Stand in for absences		High level staff functions required to add value through: • Process redesign • Information system redesign • Long-term training and development • Data mining	
Skills			
• Moderate to low level skills in most functions with moderate cross-functional familiarity		• Higher level of skills in all functions with very significant cross-functional familiarity developing at all levels	
Style			
• Low intensity		• High intensity	
• Team responsibility		• Individual and team accountability	
• Seniority matters		• Performance matters	
• Opaque		• Transparent	
• Low consequence		• Consequential	
• Slow rate of change		• High rate of change	
• Meet customer needs when they ask		• Meet current and explore future customer needs before they ask	

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FROM WHAT	TO WHAT
Performance Systems	
• *Role descriptions* used for salary grade calculations; no explicit managerial authorities or responsibilities	• *Role descriptions* used to define authorities and accountabilities for outputs and behaviours
• *Task defining systems* driven top-down using averages	• *Task defining systems* that are both top-down and bottom-up, driven by market segmentation analysis and marketing sales programme calendar
• *Task monitoring systems*: Public goal boards that are largely seen as unfair due to inadequate goal setting processes	• *Task monitoring systems*: Goal boards and laptop access to monitor portfolio of prospects, share and targets at every level and segment
• *Period review system*: Sporadic discussion about how to resolve current problems	• *Period review system*: Regular meeting with a rigorous agenda addressing issues pre-emptively
• *Performance review system*: Not very rigorous annual review with a good deal of averaging and little pay impact	• *Rigorous performance review system*: Behavioural and fact-based. Six month review that results in both positive and negative consequences

that's the reality if we are going to have to deliver on those targets. Eric, the Operational System you drew up for mortgage processing is a masterpiece. I love it.

'The truth is, we're going to have to do exactly the same levels shift analysis for every operational system we have, including marketing, data mining

and sales. If your hunch is right, Eric, a lot of your salespeople will perform at Level II and we won't have to retrench half as many as we thought.

'As for Style, I think the report is accurate and Mike would be hard-pressed to argue against it. All in all, I think it's a terrific package. The only area where Mike may have problems is Structure. But as I said before, I think that will stand up so long as we stress the business case and convince him of our underlying concepts. I know from Jane that Mike is already partly familiar with levels theory because he knew both Andrew and Elliott Jaques at Australian Mines when he was on the board. However, my guess is that he'll want a refresher course when we hit him with this. So Dave, I'd like you to add an appendix outlining the major concepts underlying the report. It should include everything we've talked about. Now let's see . . .'

Jim sat down at his desk and wrote out a list for Dave (shown on next page).

'I want him to have it before the weekend,' said Jim. 'Then we'll just have to sit down with him and hear his response. You know, I'm pretty confident we're going to get the go-ahead on this. If he's got reservations, I don't think they'll be with us but with the rest of the bank. What we're doing has ramifications for every other division. If he gives us the

Major concepts

- The Seven-S model
- What is a manager—the four managerial authorities
- Jaques' work on levels and the negative impact of too many levels, too few levels or compression of levels
- Descriptions of a Level I and Level II sales force
- The six performance systems
- The mortgage processing system exhibit as an example of Porsche systems
- The concept of managerial leadership and membership behavioural accountability

freedom to make these changes, the rest of the bank will have to fit in with us. I think that will make him think twice. But we're staking our jobs on doubling profits and we've shown comprehensively how we're going to do it.'

All the same, he thought, as Dave and Eric headed out of the office, it wouldn't do any harm to run it past Jane first. If Mike was going to hit the roof, she'd let Jim know.

Chapter Nine

Mike reviews the proposal

Kate ushered Jim into Mike's office, but not before telling him that her boss had cancelled two other appointments so he would not be distracted. Mike had phoned the previous afternoon to arrange the meeting, telling Jim that he had read his proposal but offering no other comment.

While waiting for the lift, Jim had bumped into Jane and taken the opportunity to invite her out for dinner the following evening. 'We'll either be celebrating my success or toasting my departure,' he joked.

A lot was resting on the proposal and Jim was

apprehensive. Jane told him that Mike had talked to her several times about her team training and had dropped by her office that morning to talk about levels theory. Jim bit his tongue but could not entirely hide his misgivings. Jane was hardly the advocate he would have chosen to convince Mike of the merits of levels theory. He was, however, quietly pleased to hear her say that she was thinking through its impact and application to leadership and team behaviours in her own division. Maybe she's coming round to the idea after all, he thought.

As Jim entered the office, Mike got up from his desk and indicated that they should sit at a small table by the window. This was going to be a serious discussion of ideas, not simply a reinforcement of status.

'I've read your report and talked to Jane about her team philosophy,' he said. 'You've given me a lot to think about. In fact, I've spent most of this week on it. I can see there are good and bad things in it. The worst is that we may have to retrench several hundred people and that is going to jeopardise all we have achieved over the past two years in terms of teams and shared values. On the other hand, I sense something that could materially change the whole organisation and radically improve our competitiveness.

'Between the pair of you, Jim, you and Jane have

hit upon the two fundamental organisational issues that I have been brooding on for years: how to build organisational capability and how to realise that capability through a culture that nurtures both individual and team performance—a culture based on competence, involvement, trust and respect.'

This sounded to Jim very much like what Jane espoused, and very little like his own proposal.

'You would be the leading edge of that change,' continued Mike. 'I'm already familiar with Elliott Jaques' levels theory from my time on the board at Australian Mines, and I was impressed with how it worked there, but I believe you have developed it further in a way that could bring huge benefits to the bank.' He paused. 'Am I right in detecting some input from my old friend Andrew Syndon?'

'Andrew was a great help,' said Jim. 'We couldn't have done this without him.'

'I'm glad,' said Mike. 'Until now there's been no-one familiar enough with these concepts to be able to use them in analysing where the bank is going wrong. Nor, frankly, have I had a manager with the nous to recognise our problems and the determination to fix them. What I've really been after is a method of combining Jane's successful informal approach to organisation through teams with Andrew's formal, accountability-driven approach. So

let me say straight away, Jim, I like what you've done. But the way we implement this strategy is going to affect the whole bank and I want to make damn sure that we get it right. We both need to be absolutely clear about our evolving organisational principles. Having read your documents as well as Jane's team training manual, I think there are a number of principles we need to be explicit about. They represent my vision for the bank.'

Organisational vision statement

From an organisational vision perspective we will compete in the marketplace by identifying the key functions that our customers value and delivering these functions at parity to or one level above the competency of our competitors. This will be underpinned by a performance culture that drives both individual and team performance, a culture based upon competence, involvement, trust and respect.

In order to realise this vision we need to keep in mind two guiding thoughts. First, the legitimacy of our managerial hierarchy rests on competence; and second, all managers are accountable for building a culture that nurtures involvement, trust and respect.

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We can only guarantee managerial legitimacy by agreeing to some basic rules about what constitutes a manager. Put simply, a manager is somebody held accountable for somebody else's work. He or she must have a greater level of capability to solve problems than his or her subordinates. That capability will be manifested in their ability to handle longer-term tasks than the members of their team; to be more experienced and to be able to understand, cross-integrate and make decisions about more functions than their subordinates.

To be effective, any manager must be entrusted with these basic managerial authorities:

- to be the prime assigner of work
- to select people for their teams and review people in their teams and be able to reward performance commensurate with those reviews

The management structure itself must be sound for individual managers to be effective. Wherever possible we are going to follow Elliott Jaques' theories of requisite levels of management. I want a single manager at each level who adds value to those on the level below without intruding on the job scope of, or inhibiting the performance of,

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subordinates. We are not going to have too many levels or too few levels. If we encounter problems with spans of management, we will address them at the top of the organisation, rather than at the bottom. For instance, if we have too large a management span at the bottom of the organisation, then we will create more Level IIIs and more Level IVs rather than create extra levels.

In order to develop a culture that promotes involvement, trust and respect, we need:

- clearly defined behaviours and roles for both leaders and members
- regular reviews of individual performance and team dynamics to enable an honest comparison of required behaviours with actual behaviours
- regular refresher courses in leadership and membership behaviours and management principles
- recruitment based on behavioural criteria as well as skills and level of competence

These management and behavioural principles will be enshrined in new performance systems. First and foremost, we will have clear and concise role descriptions so that everyone, from the ordinary salesperson to the managing director, knows

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exactly what's expected of them, and what is not. We will install the following systems level by level:

- task identification systems
- task monitoring systems
- task review systems
- performance review systems that relate performance to pay

These systems must be transparent, fair and consequential. Part of the performance review will be a review of required team behaviours. Managers will be reviewed on their behaviour as managerial leaders just as members of teams will be reviewed on their membership behaviours, not just their output accountabilities.

'What I've realised, Jim,' Mike said suddenly, as Jim pored over the vision statement, 'is how demanding the role of manager really is. It's not just a matter of pay or status. Being an effective manager demands an unusual blend of skill, intellectual capability, emotional maturity and desire. And it's virtually impossible to do it well if you don't respect the basic systems of management.'

Jim felt all he could do was nod, so he nodded. He couldn't help noticing that Mike's charter for

restructuring the bank was subtly different to his own proposal. It incorporated the ideas he had worked on with Dave and Eric, but also much of what Jane believed about team-building. It was, he thought, a pretty impressive synthesis of the best parts of both.

'I'd like to add one more principle,' Jim said at last, 'which is that we make a concerted effort to take the staff with us. In other words, we teach the vision at the same time as we implement the changes. That way, the whole company will understand what we're trying to do.'

'I was thinking about that last night,' replied Mike. 'We must make the concepts we're working with absolutely clear. We can't be seen to be making changes arbitrarily. This is an organisation of 20,000 people. About 500 are going to be directly affected by your plan. If it works, then I want to be able to identify the concepts that made it work and implement them across other divisions.

'I'm embarking on this, Jim, because I see it as potentially having an impact right across the bank's operations. It signals the beginning of a much more conceptual approach to organisation, one that can be explicitly taught and understood. So we have to be as true to the underlying principles as possible. That's the only way we can test and improve on them.

'So as far as the principles go, Jim, I'm right behind

you. But I'm concerned by how we're going to apply some of them. For a start, you are proposing titles and pay scales that are incompatible with our current salary grading system. Our current system reflects the degree of organisational status that goes with a role, rather than the value added or the level of intellectual capability.

'You're suggesting having a Level IV manager in data mining being paid $200,000 with only three or four people reporting to them. Under the current grading system, he or she wouldn't get paid much more than $100,000. That's a hell of a difference. But I'm going to give you the authority to suspend the bank's traditional pay structure in your division and pay by level of capability. I'll also give you a free hand to offer performance incentives for the sales force. I will review those decisions year by year.

'I also want the rest of the company to understand your approach, so the principles must be transparent to senior management. I am going to insist that you use an assessment panel of your peers when you appoint your Level IVs, Level IIIs and Level IIs. It will take some of the pressure off you and be good for the other managing directors to see the principles we're operating on and why salaries are structured as they are.

'When you start to fill the Level IV and Level III positions, I want central HR, along with Dave, to set

up assessment panels. I might sit on some of them myself. I'm not going to deny you your four managerial authorities. You will still have power of veto over the assessment panel, but you must weigh their opinions at the same time. You would be foolish if you didn't. After making these appointments I want you to liaise with Jane and make use of her team training programme, although it will need to be modified to accommodate formal leadership accountabilities that can't be delegated.

'The next thing, Jim, is going to cause some serious headaches. You're proposing a major redesign of your human resources systems and also your operating systems. If you are going to lift your organisation's centre of gravity by at least one level, then all of your systems are going to have to rise a level. I don't need to tell you that what you plan to do in mortgage processing will have to apply to the systems in data mining, marketing and all the other functions. What I suggest is that I authorise Max Page—in your language, our best Level IV systems specialist in IT—to work solely on your project. Max is currently reporting to Joe Timmins, the bank's chief information officer. I'll talk to Joe myself, tell him what you are doing, and give him a special budget to deal with it. He will set up a team to help you work through your operating systems, function by function. If we

need to run some parallel systems elsewhere in the bank, then we will do that.

‘As for your six performance systems in human resources, Dave will have to develop those on his own. We’ll keep them separate from the HR systems for the rest of the bank. But again, what he does must be transparent to the other divisional managers. That will provide a bit of two-way learning.

‘On that score, I have already talked some of this through with Jane, and I want you to keep her very involved in your changes. She understands what we are planning and agrees with it. In fact, she said she will start applying some of these principles in her own division immediately. She has an intuitive feel for managerial leadership and membership behaviours which is bound to be an advantage. I don’t think she’s wholly convinced by levels theory and the importance of having one manager at each level. But my suspicion is that her division’s performance would be greatly enhanced if she applied the principle of keeping managerial leaders one level above their teams. She has several so-called team leaders who are no more capable than their teams—sometimes less capable.

‘You’ll have guessed my final concern. I want there to be as few lay-offs as possible. I’m aware of Andrew’s rule of thirds. I want everyone to be given

the opportunity of working with Porsche systems before we start announcing lay-offs. That is a directive. We will not sack anyone without giving them a chance to perform with superior systems.'

It seemed to Jim a sizeable list of reservations, but the guts of his proposal remained intact. He wouldn't have any major problems complying with Mike's requests.

'In summary then,' said Mike, 'I've got a few qualms about how changes in your division will impact on the rest of the bank, but I'm satisfied with what you intend to do within your division. I'm confident that you have thought this through, that you're going to build a strong team behind you and that you will achieve your three-year plan.'

Mike gave a wry grin as he leaned forward in his chair. 'Tell me, Jim, do you still think you can manage this on your own, or will you need the help of others in the bank to pull it off?'

Jim bristled but managed a smile. 'Doubling profit was my call. You want me to say, as Jane would, that it's going to be a team effort. Of course I can't do it single-handed. But the bald truth is, Mike, I'm the one accountable for achieving it. That's what you're paying me for and it's my backside you'll be kicking if it doesn't happen. So it isn't going to work unless I make it work.'

It wasn't the answer Mike wanted to hear but, knowing Jim and knowing how he worked, it was the one he expected to hear.

'However,' said Jim, 'if you'll let me change the terms of our agreement, I would like to settle for your original offer of a flat salary and replace the incentive payment with the usual bank bonus system. It would be wrong for me to accept an individual special financial incentive while those I am going to rely on do not. I couldn't have done this submission without the help of Dave, Eric, Jane and, of course, Andrew.' He paused to enjoy the look of astonishment on Mike's face. 'So you could say I'm leading the team, but I'm still part of it.'

Mike quickly shook Jim's hand, as though he feared that in another few moments Jim would change his mind. But Jim had made his decision and wasn't about to go back on it. His willingness to sacrifice such a big individual incentive package was a demonstration of his commitment to the principle of balancing individual and team performance.

'I'm delighted, Jim,' he said. 'I think you've made the right decision both for the bank and for yourself. You know, one of the overlooked benefits of teamwork is that you can share some of the work pressure.'

Returning to his office, Jim thought about what he had told Mike. Doubling profit was a hell of an

ambition and he wondered if he had given himself enough time to achieve it. He had had similar goals when he became captain of the Eagles rugby team, but it was three years before they won the first of three premierships. This would be the toughest game of his career, but Jim had never been content to kick for touch.

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Over dinner that night, Jim ordered champagne before giving Jane a full account of his meeting with Mike. Jane was happy enough to hear about Mike's reaction to the submission, but what interested her more was seeing the transformation in Jim. He was smiling, laughing, and doing hopelessly bad impressions of Mike's personal assistant, and seemed altogether more relaxed than she had ever seen him.

After the meal, Jane insisted they stop for coffee and a liqueur at a trendy bar a few minutes' walk from the restaurant. Half a dozen patrons were gathered on a stage around a karaoke machine singing a Roy Orbison song.

'It's my ambition to get you up there one day,' said Jane.

'Fat chance,' smiled Jim. 'I'm far too straitlaced.'

'Exactly,' said Jane. 'It would do you good. Everyone's got to let their hair down once in a while.'

‘I tell you what, Jane. If you’re good I’ll play my violin for you one day.’

‘Violin?’ asked Jane skeptically. ‘Can you play Roy Orbison?’

‘Pretty woman,’ Jim crooned before he realised what he was doing. He stopped abruptly and blushed. Jane wondered if the karaoke machine was such a good idea after all.

‘Are you still coming to the Eagles game this weekend?’ Jim asked as he walked her to her apartment. ‘Don’t forget Andrew will be there.’

‘You know what a huge fan I am,’ Jane said teasingly.

‘That’s a yes, then?’

‘It’s an alright,’ said Jane, ‘in appreciation of the champagne.’

Their lips briefly touched as Jim said goodnight at the door.

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Jim and Andrew were standing at the entrance to the members’ stand discussing Mike’s acceptance of the plan when Jane arrived, a few minutes late and just in time for the kick-off. They didn’t say much during the game, which the Eagles won narrowly, but over drinks at the club bar Andrew asked Jane what she thought of Jim’s plan.

'Very enterprising,' she said, then added pointedly: 'He'll need a good team to make it work.'

'From what Jim tells me you don't think he's much of a team player.'

Jane, who had immediately warmed to Andrew, flashed a smile. 'Well, he does like to be out in front.'

'I just like to see where I'm going,' said Jim.

'All teams need a captain,' said Andrew, 'and Jim's not the worst I've ever seen. He did pretty well when he was with the Eagles.'

'Oh, I'm sure there are worse,' replied Jane, 'and they don't all play the violin.'

Chapter Ten

Eighteen months later and the next challenge

Eighteen months had passed. During this time Jim and his team had faced their own unique set of implementation problems—each approach to implementation being unique as it is defined by the specifics of the 'from what', the pace of change required and resources available. Jim sat at his desk in the mortgage division reflecting on all that had happened since Mike interviewed him for the job as general manager, now managing director. He was halfway through the three years he had set as a time limit for doubling profit—and was well on his way to reaching that target.

On the personal side, he and Jane had fallen in love and were planning to marry and perhaps start a family. 'But not until you've finished what you set out to do here,' said Jane. 'I know your workload and I'm not into sole parenting. Besides, I spend enough time talking about the bank's future when I'm here. I don't fancy taking it to bed with me.'

Her answer to Jim's characteristically old-fashioned proposal took him rather by surprise. For some reason he had expected her to marry him straight away. But his own marital history was a good enough incentive for him to listen carefully and agree to wait until the time was right for both of them.

As for Andrew, he had been overseas for almost a year, helping to restructure the public service of an emerging African nation. During that time Jim had had little contact with him, apart from the occasional postcard. So he was looking forward to the mid-term debriefing which Andrew had arranged for this morning. They had set up a six-monthly review session at the beginning of Andrew's involvement in order to swap thoughts on their progress, and to give Jim the opportunity to seek Andrew's advice if he needed it.

Jane had also been invited, since she had sought Andrew's help in tackling the question of management levels in her division. Like Jim, she had developed a great respect for Andrew's work. In fact they

had become friends and communicated regularly on the telephone and by email. Guided by him, she had made sure that most of her teams were led by ‘one level up’. The division’s performance had greatly improved. Her enthusiasm for teamwork, if anything, had increased once she grafted levels theory onto her ideas of managerial leadership and membership.

Andrew and Jane ran into each other as they arrived at the lift. ‘You look well, Jane,’ said Andrew, picking up a folder which he had dropped.

Jane stuck out her hand to hold the lift door. ‘I am well,’ she said cheerfully. ‘How about you?’

‘A bit withered from the African sun,’ said Andrew, ‘but otherwise fine. Did I hear that you and Jim are planning to get married?’

‘Probably,’ said Jane. ‘We didn’t bother keeping it a secret. Jim proposed to me after a dreadful performance at a karaoke bar. Thank God he had just handed over the microphone. But I think everyone in the bar heard it anyway.’

The lift doors closed and Jane and Andrew ascended the four floors to Jim’s office, where they found him flicking through a pile of files which Claire, his ever-efficient PA, had just put on his desk. Jim greeted them and the three of them sat around a table in the corner of the office.

‘So tell me,’ said Andrew, ‘is it working?’

Jim pushed some graphs across the table. ‘Our share is up $2^1/_2$ points from 14 per cent to 16.5 per cent this month. Profit has increased by over 50 per cent. The sales force has set itself a target of 7.5 mortgage sales each per week. We’re at 6.5 already and climbing.’

Jim then gave a brief account of what they had achieved organisationally so far. Most of the structural changes had been successfully put into place, although there had been some selection failures, including one in data mining where the Level IV appointee had not been up to the job. As a result, Jim and Dave had decided to break one of Andrew’s rules and appoint a Level V data mining manager instead. So Jim now had two Level Vs in the division.

Explaining this to Andrew, Jim said they had concluded that it was necessary, when creating an entirely new data mining system, to have a manager who was a level higher than the level the ongoing operating system required.

‘It became clear that if we designed a Level IV data mining system, we needed a Level V working in there during the design phase,’ he said. ‘However, when the systems have been built, she will come out of that role and act as a consultant, then we will go back to the principle of one manager at each level. What do you think?’

Andrew's reply was pragmatic. He explained that if Jim had been copying an existing system, such as the one partially copied from Federal Express, then implementation could have been led by a person on the same level as the system. But since they were starting from scratch with a new system, it was valid to hire someone at a higher level as a conscious and temporary fix.

'Quite often,' he said, 'you will see a Level V executive in charge of setting up a new plant. After the plant has been established and the Level V departs, the replacement more often than not will be a Level IV. It's done intuitively, but that is what happens.'

Jim nodded and went on: 'Dave's performance systems are in place and working well, with a good balance between individual task focus and team behaviours. Instead of conducting annual performance reviews, as happened previously, they're doing them every three months.

'It's made a huge difference to people's motivation and understanding of their jobs,' he explained. 'It clearly outlines what each person's role is, and simultaneously what that role is not. This has been realised through copying and enlarging on Jane's approach to leadership and membership training. Everyone in the division has gone through a three-day training course. The extra day is to teach levels theory and

explain Mike's vision for the bank. Consequently staff are not just clear about their own roles but about those of their managers and subordinates.

'I hate to admit it but Jane's informal stuff has really paid off; personality and team profiling has made a big difference. I'm regularly called to account for being a "dominating perfectionist" who stifles other people's contributions. I don't understand it fully but exposing a manager's frailties as well as strengths seems to allow a freer reciprocation of ideas. Everybody feels their contribution is valued. We still have leaders but they have a human face. Our ratings on the corporate climate surveys beat all divisions other than Jane's. This has allowed us to trial increased spans of managerial leadership.

'The most conspicuous change,' he continued, 'has been the appointment of Level III district managers. When we had Level IIs, all they did was add up the results of individual salespeople, total them and then take names and kick butt when targets, which had been imposed from above, were not met.

'The new Level III district managers are treating their districts like mini businesses. The best managers know how many houses are in their districts, the total mortgage value of the district, our current market share and even the district's roll-off profile. They are on top of every building develop-

ment and pick up clients as the development fills. They're also hooked into the district-based data mining system and are using it to understand the business potential in each district. They're putting districts into context for the Level II salespeople and showing them where the open and closed doors are—where we are doing well and where we are doing badly, and why. The Level IIs now act both as individuals and as a team to bring our averages up in weak areas and to understand why they are high in the good areas. The Level III district manager's role and the performance of the Level II sales force are the crowning successes of our change management programme.'

'And what about that processing bottleneck?' asked Andrew.

'We got stuck into that,' replied Jim. 'We can now get a standard mortgage processed in less than four days, even though eight to 12 people are involved. Only about five per cent of applications take longer, and that's because they have some non-standard aspect.

'The really exciting thing about using the Federal Express pass-the-parcel system of mortgage processing is that by making everything transparent to all players, we have stumbled on self-disciplined, virtually ad hoc, teams.'

'Because everyone in the division knows that everyone else is watching their performance,' said Andrew, as if it was all self-explanatory. 'You know, Jim, there's no reason why you can't build that peer review ethic into all your accountability systems.'

'We're already doing it,' said Jim.

'And how did the talent pool selection process work out when you were selecting the Level II sales force?'

'Your one-third, one-third, one-third rule seems to be about right,' replied Jim. 'Especially after we instituted the new mortgage processing system. The reality was that most of our employees were capable of much higher levels of work than we were requiring of them. It's very satisfying for me to see people grow as much as they have.'

'Very impressive,' said Andrew. 'And is the performance improvement roughly the same across the board?'

'Strangely, no,' said Jim, his expression turning serious. 'We've found through data mining that our 16.5 per cent share is heavily skewed towards the mass market customer and the bank is actually losing share in the high income, high net worth segment.'

Andrew looked at Jane. 'Any ideas why that might be?'

'Mass market customers usually look for a one- or

two-product bank relationship,' said Jane, 'with the transactions and mortgage being the key relationships. But the high income, high net worth customer is after a much more complex relationship, where the mortgage might be of secondary, or even tertiary, importance. They want more than we're giving them.'

'We're finding high income, high net worth customers require a much broader basket of services than my division provides,' Jim explained. 'We're losing share to a smaller competitor, Custodian, which has nearly 40 per cent of the high income, high net worth segment, and that has me really worried. While I am making my goals overall, I'm losing in an important segment. It's a problem we're going to have to fix.'

'It's inevitable that some areas won't be as successful as others,' said Andrew. 'What's important is that the restructuring as a whole is paying off. Specific problems can be targeted later. But I realise you don't want to let this one get away from you.' He glanced at Jane. 'I'm sure it won't surprise you when I say that levels theory may be one way of tackling it.'

Jane's smile showed that she was anything but surprised, and that she was looking forward to seeing him prove it.

'Tell me, Jane,' he began, 'do you think there is any

human activity that doesn't conform to the principles of levels theory?'

Jane thought for a moment and answered: 'Sailing.'

'Sailing,' said Andrew, scratching his chin. 'Okay, Jim. Why don't you give us a level-by-level breakdown of sailing.'

'Yes, Jim,' said Jane. 'Why don't you?'

Jim thought for a moment before answering. 'Let me look at both ends of the spectrum, Level 1 and Level V. I suppose sailing at Level I would comprise me jumping into my dinghy and setting off. I know how to sail and keep myself out of trouble. Not much else. Level V would be the Whitbread Cup races, where the skipper doesn't just sail the yacht but is fully conversant with hull design, sail design, meteorology, finance and even sponsorship. In between would be other forms of sailing, evolving gradually from recreational to competitive. As usual the shift is from single-function competence to multi-function competence.'

'I'm not much of a sailor,' said Andrew, 'but that sounds pretty convincing to me, although I see Jane still has her doubts.' He opened a folder and pulled out a page (shown on pages 170–171).

'This,' he said, 'is called a functional evolution matrix. It refers to the way a given function—let's say quality control in manufacturing—has evolved

over time, and how that evolution is guided—dictated, even—by the level at which the function is managed.'

Jim and Jane studied it with interest.

'If you look at quality control,' continued Andrew, 'you'll see that it has gone through five evolutionary levels over the past 60 years. It started off at Level I with "customer return". Level II involved "end-of-line inspection": Level III was "in process inspection" and Level IV, "statistical quality control". At Level V you have "total quality control" and finally, at Level VI, the most recent innovation, "value balanced quality". You will see that I have analysed several other functions in the same way. In fact it's my belief that all human endeavour can be expressed in terms of levels.'

'What about the Seven S's?' asked Jim. 'If you're right, and I dare say you are, then how do they apply to your evolutionary model?' Before Andrew could respond, Jim volunteered an answer of his own. 'Presumably,' he said, 'you could do a separate analysis for each level of evolution?'

'Exactly,' said Andrew. He pulled another sheet (shown on pages 172–173) from his folder. 'Look at this. It shows a Seven-S analysis for quality control performed at Levels II, III, IV and V. Obviously it only summarises the major points but you can see

Evolution of functions through levels

Levels — Activity — Evolution Matrix

Level at which the function or activity is managed

Level \ Activities	Strategy	Marketing	Quality control
VI Chief Executive Officer	• Value proposition • 10 year +	• Marketing chartering driving whole company	• Value balanced quality
V Managing Director	• Industry structure • 5–10 year horizon	• Value equivalency analysis	• Total quality management
IV General Manager	• Relative competition position • 2–5 year horizon	• Consumer segmentation	• Statistical quality control
III Department Manager	• Internal efficiency focus • 1–2 year horizon	• Mass marketing	• Quality assurance
II Supervisor	• Day-to-day survival • 1 year horizon	• Local sales	• End-of-line inspection

Congruence

Inventory control	**Purchasing**	**Maintenance**	**Financial metrics**
• Efficient customer response (ECR)	• Virtual vertical integration	• Not yet needed	• Balanced scorecard ($ and humans)
• JIT inventory	• Symbiotic partnership integration	• Zero failure maintenance	• Shareholder value analysis
• Live statistical inventory management	• Strategic segregation	• Reliability-based maintenance	• Return on equity • Return on assets
• Economic order quantity	• Adversarial	• Preventative maintenance	• Profit and loss
• Eyeball check	• Yellow pages	• Breakdown maintenance	• Cashflow

Congruence

Seven-S descriptors by level of evolution: Quality control

At a high level of analysis, using the Seven-S model we can see the shift in organisational form as a function evolves up the capacity hierarchy. From a diagnostic perspective, this allows an understanding of '**from what**' and '**to what**' and clearly identifies the extraordinary prize in achieving the shift to the '**to achieve what**'.

Descriptor	**Level II** **End of the line inspection and customer return**	**Level III** **In process inspection**
Strategy	• Reduction of returns	• Reduction of production costs
Structure • Leader of function • Lowest paid in function	 • Production supervisor $70k p.a. • Operators $35k p.a.	 • Quality control manager $100k p.a. • Inspectors $35k p.a.
Skills required	• Production/product expertise • Go, no go measurement	• Competent statistical and analysis skills • Beginnings of specialised quality control technical skills • Writing of design specifications • Troubleshooting
Systems	• End of line inspection • Customer lives with lots of defects • Repair a large function pre and post sales • End of line, go, no go specs on key utilities	• In process and end of line go, no go inspection • Repair very much a part of operations • Scrap rates measured in percentage points • Hardly ever see a customer • Industry discussion groups • Standards set but a low level
Outcomes ***'the prize'***	• **High failure rates but customer often wears it** • **Focus on repair**	• **Failure rates in percentage terms** • **QA a cost to be lowered** • **QA as good as competitors**

From what →	***To what***
Level IV **Statistical quality control (SQC)**	**Level V** **Total quality management (TQM)**
• Reduction of complete process costs • Incorporates pre and post production	• Seek competitive advantage through quality and its through-effect on other processes
• General Manager (Quality) $175k+ p.a. • Quality assurance officer $70k p.a.	• Operations director (QA responsibility) $250k p.a. • Quality management officer $70k p.a.
• Broad business comprehension • Competent quality assurance and control skills • Strong numeric and diagnostic skills	• High level, broad based competencies in customer value offering • Forefront of continuous improvement techniques • Product/production skills less important
• The quality function still largely separate from other functions • Massive measuring and monitoring systems in place, trend analysis, talk to customers • Quality circle processes starting • Some failure accepted and repair function still in place • National associations co-ordinating industry standards	• Cross-functional and thorough level integration of quality function • Individuals within teams working to 2 sigma • Integration of customer into the process both for design and feedback • Failure the absolute exception. No scrap, no repair • International Standards Organisations (ISO) accrediting and governing international industry standards
• **Failure rates measured in parts of a per cent** • **SQC used as a cost/profit trade-off**	• **Failure rates in units per million** • **Increased speed to market locally and globally** • **Quality a strategic tool** ***To achieve what*** ↑

at once how the requirements and accountabilities change as you move up through the levels.

'Look at structure, for instance. At Level IV, you would be looking at quite a broad-based pyramid, with operators at the bottom on about $35,000 and a production supervisor on top at perhaps double that. At Level V, on the other hand, you'd be looking at a smaller pyramid reflecting a much higher degree of competence. At the bottom you would have a quality management officer on, say, $70,000, and at the top a quality director on over $250,000.

'The different staffing structure represents a radically different business strategy, from merely reducing customer returns to building a competitive advantage based on superior product quality. Using the Seven-S model you can develop a precise description for each level of a given function. By drawing the model you can see exactly where the differences lie and how to move towards a higher level.'

Andrew let this idea sink in for a while. 'The great thing about Seven-S is that it can be applied to any function and any business. Combining it with Elliott's work enables you to be rigorous in analysing problems and finding solutions.' He turned to Jim. 'How many generic functions are there in any business?'

Jim scribbled them down on a sheet of paper:

Generic functions

- new product development
- operations
- distribution
- sales
- marketing
- finance accounting
- human resources
- process technology
- information technology

'Nine in all,' said Jim, 'although for any given business some are more important than others. For instance, in your small consulting business, Andrew, you don't need Level V information technology. But in a bank, you won't survive without Level V.'

'Good point,' said Andrew. 'So we can say that some are key functions for success and others aren't. It depends on the business. But I am going to suggest that in every case competitiveness rests on identifying your key strategic functions and operating them at a higher level than your rivals. Yours, Jim, are probably mortgage processing, sales, marketing and data mining. You need to be performing in these areas

at a higher level than your competitors if you're going to improve market share. If you're at the same level, you'll be standing still. If you perform at a lower level in any of them you'll go backwards. This is what happened to US auto manufacturers in the 1970s. They were using Level IV statistical quality control while the Japanese were using Level V total quality management. Their products suffered in comparison and as a result the Japanese murdered them in the market.

'You know, I've spent half my life studying this and I've come to the conclusion that there are essentially two types of organisational improvement. The first is what you could call "getting out of your own way"; this involves getting the right number of levels—no overlaps, no gaps—and instituting Dave's performance systems, together with Jane's collaborative approach engendering trust and respect through working on personal and team dynamics. This results in big productivity gains but it's not really innovative. The improvement has come from removing negatives rather than imagining something radically new.

'The second type of improvement is achieved by a levels shift. This is genuinely innovative and demands a fundamental rethink of the way the organisation works. It's much more than cutting out dead wood; it means rebuilding from scratch with a brand new

vision of how the organisation might operate. It's harder to pull off but the potential benefits are enormous. Jim, you've already achieved it with mortgage sales, raising the sales force from I to II. I went back over my records and pulled some data on performance improvement among my other clients. As you'll see, the numbers are staggering.' (Shown below.)

Improvements experienced through levels shift

Function	Measure	Impact of level shift
Quality	• % scrap rate • Defect rates	• 12–15% → 1.8% • 1–2% → 1:1,000,000
Purchasing	• Cost of purchase	• Cost reduction of 10–12%
Sales	• Sales per mobile mortgage manager • Value per mortgage	• 2 per week → 5 per week • $80,000 → $130,000
Maintenance	• Availability of multi-system continuous plant	• 64% → 85%
Admin overhead	• Total cost of administration	• Reduced by 35–40%
Marketing	• Shares • Time to market	• Three-year record of 7%, value share gains based on social insight • Time to market weeks or months
Operations productivity	• Labour and machine productivity	• 100–200% improvement

'That's bloody impressive,' said Jim, 'but how will it help us solve our problem?'

'I'm coming to that,' said Andrew. 'Jane, what would you identify as the bank's key strategic functions in going after the high income, high net worth business?'

'Sales and its back office back-up,' she answered at once.

'In that case, I wouldn't mind betting that your problem is pitting a Level II sales force against Custodian's Level III sales force.'

Jane sat there stunned. 'That's exactly what's happening. As per usual, Andrew, you've conceptualised what we already intuited,' she said. 'We come up against Custodian all the time in financial planning, funds management and personal banking. The salesperson at Custodian either has direct expertise, or has rapid access to expertise, in about five functional areas. They're very good on tax, investment advice and mortgages. They can talk to you about trust structures and they're very smart on insurance because historically that was their business base. And, of course, they have their transaction system as the basis of their business.

'So when they talk to a high income, high net worth customer, they can offer immediate integrated service in five areas, whereas if one of my team talks

to a customer, they can't discuss mortgages because that's Jim's area. And, on the whole, we are not as competent on insurance. However, we can probably match them on funds management and tax issues, and we have a better transaction system. But the gist of it, Andrew, is that they're operating at Level III, a level above us, and we have to catch up. That's why Jim is losing share in the high income, high net worth segment. If we're going to meet the needs of Level III customers, we're going to have to offer them at least Level III service. Until we do, Custodian is going to walk all over us.'

'How will we go about it?' asked Jim.

'Two guesses,' said Jane.

Andrew smiled. 'You can start by doing a full Seven-S diagnostic and designing a change programme.'

'Struth, Andrew,' exclaimed Jim, 'this never lets up. We've just finished getting our sales force up to Level II and now we find the most profitable part of the market demands Level III. This is really going to stir things up in both divisions.'

'That's why it's so difficult,' said Andrew, 'especially when you're talking about second-phase organisational change. You've had 18 months of grief and hard work, and have built up a number of personal loyalties. By all accounts, it has gone extremely well.

But now it's time to haul at least part of your sales force up to Level III, and some of your most loyal staff won't make it.'

'Which is why I should be doing it, not Jim,' said Jane. 'It will sound better coming from me. We'll have to collaborate closely in any case. We'll start by doing a full Seven-S analysis on a Level III sales force.'

'Yes, that's all very well,' Jim interrupted, 'but I really feel bad about this. The guys have worked their guts out. We're a team and now I'm going to tell them, "Sorry guys, the trust we've built up is all for nothing. I'm changing the rules again."'

Jane laughed. 'Wow, Jim, you sound like me!'

'Yes, and you sound like me! What's going on here?'

'Do you really want to know?' Andrew asked.

'It looks like you're going to tell us anyway,' Jim said, and Jane finished the thought for him: 'so why don't you go ahead?'

Andrew laughed as Jim pretended to glare at Jane. 'Well, my suspicion is that freely given co-operation and contract reflect our brain structure.'

'Now you're really pushing it,' Jane smiled.

'No, hold on, let me explain,' Andrew said, holding up his hands as if in self-defence.

'The simple version!' Jim retorted, then sat back in

his chair.

'Okay,' said Andrew, sketching a rough picture on his notepad and holding it up for them. 'The human brain is made up of three distinct structures: the lizard brain at the base, where the brain links into the spinal cord; the limbic system which sits on top of the lizard brain; and the neo-cortex which sits on top of that.'

'Is this the old left and right stuff?' asked Jane. 'The left being verbal, and the right mathematical.' She hesitated. 'Or do I mean the other way round?'

'You're just talking about the neo-cortex,' said Andrew. 'This is more fundamental than that.'

'Alright,' said Jim. 'So there are three parts to the brain. What's the function of each?'

'The lizard brain is just what it sounds like,' said Andrew. 'It's the only one that lizards have. It's not so much a thinking brain as an automatic processor. It keeps the body ticking over, the heart beating, the lungs expanding and so on. In lizards it generates mating displays and territorial aggression.'

'You see it in discos,' quipped Jane.

'It's the most primitive kind of instinctual response,' said Andrew. 'The mother crocodile sees its own young and thinks: food. Reptiles can get by with it, but mammals are born defenceless. They need suckling. Mammals have to take care of their

own and it's the limbic brain that lets them do it. It gives them the capacity for nurturing, attachment and love. Without it, baby mammals wouldn't survive.'

'So what's the function of the neo-cortex?' asked Jim.

'It's what some people think of as the intellect. In us it's the largest of the three brains, the one that governs conceptual reflective thought.'

'You mean the one that makes us human?' said Jim. Jane groaned.

'Only if you're a nineteenth-century clergyman,' laughed Andrew.

'We wouldn't be very human if we ate our kids,' said Jane.

'We need all three,' said Andrew. 'We'd be lost without our emotions but we temper them with reason and logic.'

'Some more willingly than others,' said Jane, looking at Jim.

'True,' said Andrew. 'We're not machines, after all, and we're all influenced by our upbringing. But the important point is that emotion alone is a dangerous stimulus. Devotion to one group can have its counterpart in hostility to another. Attachment to one's own often goes with fear and hatred of the outsider.'

'Tribalism,' said Jim.

'That's one word for it. It's a dangerous way to run

society. Emotions need to be curbed and for that we need the neo-cortex. The neo-cortex is the source not only of reason and logic but also of rules, procedure, law and accountability.'

'So you could say society has evolved to temper the emotional impulses of the limbic system with the reasoning power of the neo-cortex,' said Jim. 'The rule of law over blood ties.'

'To put it crudely.'

'But what about compassion, generosity, patience?' said Jane. 'Aren't they limbic values? You can't be made to feel compassion, and society would be an ugly place without it.'

'We've found the need for different kinds of rules and procedures. We try to curb negative impulses while nurturing positive ones. So we have laws against violence but we also have tax breaks for charitable donations.'

'What you're saying, then,' said Jim, 'is that the limbic system is a loose cannon. It can't be trusted to control itself.'

'It's a delicate apparatus,' said Andrew, 'but it's essentially non-verbal. We depend on the neo-cortex for rationalising, negotiating, compromising.'

Jim looked as though he had just landed a touch-line conversion between the posts. 'Which is why it's essential to the workplace. Rules and accountability

and legitimate hierarchy are the expression of the neo-cortex.'

'Wait a minute,' interrupted Jane. 'What we've found is that the workplace breaks down without limbic values like attachment, trust and mutual respect. They're the basis of freely given co-operation, which in turn creates team spirit.'

'Yes,' said Jim, 'but it's the rational structures that harness them for the benefit of the whole organisation.'

'You're both right,' said Andrew. 'Remember, Jane, how you felt when we first started discussing accountability and manager–subordinate relationships in the context of levels theory?'

'I hated it. It was cold and unemotional.'

'The antithesis, in other words, of the limbic values you wanted to nurture.' He turned to Jim. 'You, Jim, on the other hand, immediately seized on a formal structure as the best way to stay in control.'

'At first, yes,' said Jim, 'but I had to give up a degree of control in order to engage all the people working under me. The reorganisation worked by having adopted some of Jane's more informal processes of team-building, leadership–membership and behavioural feedback and accountability. We eliminated a lot of the obstructions. It's much easier to get results than it used to be.'

'Meanwhile,' said Jane, 'I've learnt to be more systematic about performance, accountability and the role of my managers. This has saved me endless hours of babysitting, ego-massaging and covering up for non-performers.'

'In terms of brain structure,' said Andrew, 'you, Jim, have grafted the values of the limbic system onto the formal processes of the neo-cortex while you, Jane, have done it the other way round. You've arrived at the same solution from opposite directions.'

'It's paradoxical, isn't it,' said Jane. 'The CEO is the epitome of neo-cortical control. They're employed on a rigid contract and they're paid to sit on top of a management pyramid. Yet the CEO can't be truly effective without relinquishing some of the very control that defines the management structure. A CEO without some respect for limbic values is bound to fail.'

'Which is why an obsession with shareholder value over the balanced scorecard approach is ultimately counter-productive,' said Andrew. 'Today's CEO should be smart enough to get beyond "either–or" and see that the answer lies in balancing the two.'

'Speaking of which, Jane,' said Jim, 'I appreciate your offer to do the lion's share of the work in moving our sales force to Level III, but hearing the two of you

has convinced me that it's my job after all. I want everyone involved to know exactly what's happening and why. Not everyone will get through it but I want to deal honestly with those who don't. We've got to do this properly and the responsibility has got to be mine.'

'After a speech like that, Jim, how could I stand in your way?' She winked at Andrew.

As they stood alone in the office after the meeting, Jane reached for Jim's hand and gave it a squeeze. 'I wonder if you can apply this levels theory stuff to personal relationships. I know all about the "from what" and I've got a pretty good idea about the "to what" but I've never been very good on "to achieve what".'

Jim hitched up his trouser cuff to reveal a glimpse of the Simpsons socks which Jane had given him years earlier and which she had long given up hope of seeing him wear.

'I suppose that's a start,' laughed Jane.

Epilogue

A more conceptual presentation of the theories

The novel approach was used in *Levels of Excellence* to make complex concepts accessible. This epilogue is written for those who want a handy summary of the concepts. It will address the following four propositions implicit in the novel:

- The workplace is organised with a blend of two approaches to getting work done—formal accountability systems and informal co-operative systems (respectively, Jim and Jane's starting points).
- Neither formal nor informal employment systems are sufficient in their own right—there are strengths and weaknesses to both formal and informal organisational approaches.

- Blending formal and informal systems of work requires formalised accountability for behaviour as well as outputs, and a hierarchy legitimised by distinct levels of competence (where both Jim and Jane end up).
- Levels theory, together with the Seven-S model, shows how to improve performance and beat competitors through a levels shift.

Formal accountability systems and informal co-operative systems of employment

The workplace is a special environment. It's where most of us spend a large proportion of our time and, if organised legitimately, it allows people to develop a sense of place and identity. It's unique, in that our performance and behaviour in the workplace is reviewed with heavy consequences by (we hope) a competent manager, whose advice and encouragement can help us develop.

The workplace is organised according to two different accountability systems: the formal and the informal. Most organisations operate with a blend of both.

Formal accountability systems are derived directly from the managerial authority and employee accountability associated with paid employment; the employment contract commits employees to work towards

goals set by the employer. Control of employees can be exerted in several different ways: direct supervision, a requirement to follow standard procedures, or standardisation of outcome.

This style of accountability system organisation is articulated through a hierarchical structure, each level in the hierarchy being held accountable for the work of those directly beneath them. The hierarchy is founded on the capacity of managers higher up the pyramid to solve increasingly complex problems. Higher levels of competence are, in turn, reflected in higher levels of pay. The accountability hierarchy requires detailed planning, delegation of work and review of outcomes. The formal system is synonymous with order and control.

Informal responsibility systems, on the other hand, define a mode of work organised not by authority but by co-operation based on involvement, trust, give and take and shared values. This approach to organisation is manifested in vision statements, charismatic leadership, network or project structures, co-operative team behaviours based on an understanding of individual and team dynamics, and the monitoring of the corporate climate through employee surveys. It shows a distaste for hierarchy.

Recent research into brain structure has reinforced this duality. It suggests that the balance between

formal and informal management approaches has a correlation in the structure of the brain, the 'informal' being a reflection of the limbic system's need for emotional attachment, and the 'formal' being a reflection of the rational, verbal approach of the neo-cortex. Overemphasis on either denies what makes us human.

Neither formal nor informal employment systems are sufficient in their own right

There are strengths and weaknesses to both approaches. The strength of the formal system is its focus on individual accountability and managerial authority, which makes it very effective in getting routine work performed. Tasks are clearly defined, delegated and monitored by managers; subordinates are clear about their accountabilities and the consequences of failing to meet them. Managers are held accountable for the effectiveness of their subordinates.

The formal system has two principal weaknesses. First, if the environment requires a high degree of flexibility, the system can be slow to respond because tasks and performance standards have to be continuously and laboriously re-defined. Second, the formal system of authority based on the employment contract is inherently brittle. Its legitimacy relies on each level of management being able to add value by solving problems subordinates cannot solve on their

own. It also relies on managers being naturally able to create a sense of involvement, trust and mutual understanding. Failure in either case makes the system illegitimate. Co-operation beyond the terms of the contract is unlikely where your boss is no smarter than you are or where you are treated merely as a means to an end. Illegitimate authority slows down the organisation's ability to change because it destroys the goodwill and energy that is essential to improvement and innovation.

The strength of the informal system is that its focus on involvement, trust, mutual understanding and equality gives it a better chance of realising the talents of individuals working in teams. It encourages high levels of unselfish co-operation within teams and across functions in a changing environment where tasks are less clearly defined.

The weakness of the informal approach alone is that, in attempting to institutionalise freely given co-operation, ideas of equality and emphasis on teams and team dynamics, it suspends the reality of employment.

There are three truths about paid employment:

- Accountability is individual, not communal or team related.
- We are paid and employed as individuals, not teams.

- A shop floor employee is not paid to demonstrate the same level of capability or accountability as a CEO. They may respect each other as people but their role in the workplace is not equal. There is an accountability hierarchy.

By suspending reality the informal system risks creating exactly the opposite to what it sets out to achieve. Under poor leadership or economic stress it can cultivate cynicism instead of trust. An informal system breaks down under weak leadership (nothing is worse than working for an ineffective manager) and when poor performance or commercial realities demand discipline or lay-offs. The result for employees is often disenchantment and resentfulness, a realisation that the facts do not match the promises. In short, an effective informal system needs the underpinning of a legitimate formal hierarchy.

Blending formal and informal systems of work requires formalised accountability for behaviour as well as outputs and a hierarchy legitimised by competence

Virtually all contemporary management literature focuses on informal organisational systems. This reflects broader community values. We prize involvement, trust, respect and equality but back away from authority and accountability. In practice, high per-

formance over the long term requires both legitimate formal processes and informal co-operative processes.

The key to realising the best of both systems lies in formalising an informal set of behavioural values, so that employees are held accountable not only for outputs and outcomes but also for co-operative behaviours within a legitimate leadership hierarchy. The following prerequisites apply:

- Each level of management must add value.
- Managers are held accountable for the effectiveness of subordinates.
- Managers, teams and members are accountable for both outputs and behaviours that encourage involvement, trust and mutual respect.

It should be stressed that behavioural accountability makes equal demands on team leaders and team members. The objective is to cultivate leadership as well as membership behaviours that sustain involvement, trust, respect for the individual and competent leadership. These values will underpin the legitimacy of the hierarchy and promote the kind of co-operation needed for fast and flexible problem solving.

In the modern corporate world it is a fallacy to put faith in such concepts as communal accountability and continuity of employment, or to suggest that hierarchies are redundant. We may feel communal responsibility but communal accountability, in an

employment context, almost never exists. (Responsibility might prompt feelings of guilt when something goes wrong; accountability results in being fired, demoted or passed over.) Leaders may strive for continuity of employment but one company can't control the marketplace, nor can it control its competitors. Continuity cannot be guaranteed. As for the corporate hierarchy, if managers are paid two, three or ten times the salary of other employees, then they should be being rewarded for higher levels of capability or the whole system is illegitimate.

In practice the melding of formal and informal systems is not easy to achieve. Society leans increasingly towards a more informal workplace. However, global competition is becoming fiercer, pressing companies to demand better qualified managers, a capable hierarchy that adds value and a more skilled and capable workforce.

Levels theory together with the Seven-S model shows how to improve performance and beat competitors through a levels shift

Balancing the formal and informal requires the understanding and integration of two models: Elliott Jaques' levels theory and McKinsey's 'Seven-S' model. Jaques argues that legitimate managerial levels reflect discrete levels of human intellectual

development. Ideally, according to this model, each level of management reflects a discrete stage of intellectual development, a Level V managing director using a greater ability to add value than a Level IV general manager, who uses their ability to add more value than a Level III department manager or a Level II floor supervisor. The higher the level, the greater the accountabilities and the higher the pay.

McKinsey's Seven-S model expresses organisation in terms of Superordinate Goal, Strategy, Structure, Systems, Skills, Staff and Style. Combining the McKinsey and Jaques approaches provides the concepts and real world detail and depth required to achieve two fundamental improvements in performance.

The first improvement comes from what could be called 'getting out of your own way'. This involves: (a) removing excess levels of management, ensuring that both the company and each function performed by the company are managed at the right level of competence; and (b) establishing both formal and informal systems that ensure a performance orientation and freely given co-operation. 'Getting out of your own way' can result in productivity improvements of 20 to 50 per cent.

The second improvement derives from 'level shifting'. Here a company realises that in order to be

competitive it has to perform key functions better and more efficiently than its competitors; it resolves to outsmart its rivals by lifting competence by one full level in key functions.

An example of this occurred in the 1970s when Japanese car manufacturers invented a new Level V system of quality control called 'total quality management'. US manufacturers were still employing a Level IV system called 'statistical quality control'. As a result, US manufacturers lost market share to the Japanese until they were able to lift their quality control system to Level V.

A similar situation exists in the home loans business. Large banks generally have mortgage sales forces operating at Level I, while non-bank lenders employ a better qualified Level II sales force. The non-bank sales force is twice as productive and will continue to steal market share until the banks lift their sales force to the same level.

In summary, improved performance depends on two things:

- integrating informal behavioural systems within a formal leadership structure, i.e. balancing our emotional side with our intellectual side; and
- driving up organisational capability in key functions one level above that of the competition by developing the skills and capabilities of each individual.

Jim has just taken a high-powered job in a major Australian bank. His brief is to double profit in three years. Jim thinks a formal system of accountability will be the answer, and his first impulse is to sack staff who are not performing to expectation. But when he meets Jane, another divisional head who firmly believes in teamwork and co-operation, Jim starts to change his way of thinking.

With the help of two leading business management models – Elliott Jaques' *Levels Theory* and McKinsey's *Seven-S model* – Jim discovers that you can combine formal systems of authority with less formal processes that lead to freely given co-operation for business success, and that with the right structure and support, staff who are currently operating below expectations can jump a level and become excellent performers.

Written as a novel in the best-selling tradition of *The Goal* by Eliyahu Goldratt and Jeff Cox, *Levels of Excellence* makes it easy for managers to understand how to design changes to achieve their business goals. Through its uniquely Australian outlook, *Levels of Excellence* offers real-world insights on how to turn complex management theory into practical business solutions.

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Julian would like to extend many thanks to Phil Grose, who gave life to the characters in this book.

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